The Currency System of Colonial Korea

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1. Foreword

The general assumption has been that the currency system of colonial Korea, like that of her aggressor, was the gold standard. Under such a system, the loan of money by the imperial government or by financial agencies in Tokyo has been thought to signify an equal volume of Japanese investment in Korea. This writer, however, with doubts about the supposition, has previously examined the formation of monetary system in colonial Korea, in relation to the Currency Readjustment. In this article, the argument will be further clarified, through investigating the changes in the monetary system of colonial Korea.

Superficially, the commonly held view on the nature of Korean monetary system may appear self-evident. Chosen-ginkoken [hereafter "Senginken"], the currency of colonial Korea, legally enjoyed equal status with the Japanese yen and could be converted into an equal amount of gold coins or of Nippon-ginkoken [hereafter "Nichiginken"], at both the head and branch offices in Korea. Albeit in petty sums only, Nichiginken was in circulation throughout Korea, with no premium and no restriction whatsoever. Since the Japanese currency was on gold basis, its Korean counterpart was also thus considered. One of the motives behind the Japanese creation of the Korean monetary system, in fact, was to make the public believe that the

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1 Suzuki Takeo, "Senginken", Chosen kinyuron juko, 1940
2 Oh Doo-hwan "Currency Readjustment and Colonial Monetary System of 1905 in Korea” Journal of Social Sciences and Humanities (June 1987), the Korea Research Center
Korean monetary system, in fact, was to make the public believe that the currency of Korea was identical to that of Japan.

Such generally accepted myths, however, must be reconsidered. First of all, the postulate that Senginken was a gold standard is founded on the fact of the yen's being gold-based. The Japanese monetary system, however, was on gold basis only for limited periods, i.e. 1897-1917 and 1930-1931. Although Japanese laws decreed for the gold standard in the years 1897-1931, in practice placed an embargo on the gold export and regulated the conversion of gold from 1917 to 1929. Consequently, it is difficult to call the Japan of this period a gold-using nation, and therefore any argument claiming Korea as such is valid only for 1905-1917 and 1930-1931. But it must be added that even during this period, there were various factors involved which make it no easy task to equate the gold standard in Korea to that of Japan.

In this thesis, the writer will inquire into the nature of the Korean currency with such precognition of the subject. It is hoped that this research will provide with the basic viewpoint for understanding how Japan procured the funds for ruling Korea and, moreover, through issuing inconvertible notes, exploited not only Korea but China.

2. The Establishment and the Nature of Chosen-ginko

In order to understand the establishment and the nature of Chosen-ginko [hereafter “Sengin”], the central bank of colonial Korea, the centralization of Dauchí-ginko [hereafter “Dauchi”], as its historical precedent, must be considered. It was in 1905 that the system of a central bank, with rights to the national treasury and to the issuance of bank notes, was established. With the signing of the Japanese-Korean Protocol in 1904, the Japanese Megata Tanetaro was dispatched as the financial advisor to Korea. Thoroughly unprepared,3 he appointed Dauchi, a mere private bank of Japan, to manage the national treasury of Korea and gave it the right to

3 According to a memoir of the period, the currency readjustment was chiefly characterized by the fact of absence of any preparation. Records clearly illustrate the situation, thus “The assimilation of monetary systems is a task which lays the foundation for a common Japanese-Korean economy. Therefore, it is of utmost importance, yet advisor Megata, with no preparation whatsoever, immediately set out to reform the currency.” Fujikawa Risaburo, “Shinan-arishino heissei-seiri” Chosen-tochimu kaikoto hihan, 1936, p 33
issue notes, thereby establishing Danchi-ginkoken [hereafter "Daiginken"] as the legal tender. At the same time, Megata initiated currency reform, withdrawing the old copper coins.

This process of centralizing Danchi, of course, was not accomplished overnight. Right after the opening of Korea, Danchi had in 1878 already installed a branch office in Pusan, gradually expanding to Seoul, Inch’ŏn, and Wonsan. Simultaneously, as the beachhead of Japanese imperialism in Korea, Danchi performed special duties, e.g., the management of Japanese national funds in Korea, providing the Korean government with loans, and the absorption of gold produced in Korea. Also, by quickly winning the favor of P. G. Möllendorff, the inspector-general of customs, Danchi became the tariff management bank of Korea and also absorbed financial funds as deposits. Furthermore, Danchi, with Shibuzawa Euchi at the center, tried after the first Sino-Japanese War to be made the central bank of Korea but was not successful due to changes in the political situation and to the Tripartite Intervention. Danchi, however, making use of the disorderly monetary system in Korea, was permitted by the Japanese government to issue Daiginken, which, as a sight bill, had the characteristics of a currency. This was a major attempt made by Daichhi to become the central bank of Korea. At this point, however, with the Korean government still in existence and a counter movement organized by Korean merchants around Song su-man the circulation of Daiginken was not greatly expanded.

While the financial invasion of Korea by Japan, headed by Danchi, was under way, the Korean government tried to found a central bank and issue notes of its own. In 1901, the Ordinance of Monetary Unit, and two years later, the Ordinances of Central Bank and of Convertible Notes, were respectively proclaimed. These were attempts at prohibiting the circulation of silver-based yen then rampant in Korea, centralize the right to issue notes to the government, and to establish a unique gold standard. Such efforts, however, proved abortive, for the Japanese interfered and the Korean government failed to obtain a loan for a gold reserve. The Japanese endeavor to widen the distribution of Daiginken also met with limitations and came to a standstill with the Russo-Japanese War as a turning point.

When the war broke out in 1904, the Japanese, in order to supply their war chest, immediately issued several types of military script based on silver, in Korea and Manchuria. But the military script did not enjoy wide circulation and, even when forcibly used by Japanese soldiers, was upon receipt
exchanged for another currency by Koreans. When prices marked by the military script rose and the currency value dropped as a consequence, the Japanese government arrested its issuance. Daiichi, on the other hand, opened branches in P'yŏngyang and other cities, with the advent of the war. The Japanese government therefore forwarded military funds to Daiichi, which would in turn by issuing notes procure military expenses and withdraw the military script. In this process, the circulation of Daiginken greatly increased, and in 1905 was made the legal tender of Korea by Megata.

It must be borne in mind, too, that after Russo-Japanese War, Japan, by making Yokohama Shokin-ginko ["Reserve Bank"] issue a silver-based currency called "Shobyo" tried to withdraw the military script in Manchuria. This "Shobyo," as Sengin expanded into Manchuria after 1913 and its bill was legalized in Kwantung and the auxiliary territories of the South Manchuria railroad system, was absorbed into Senginken. Through this, it is easy to see that the issuance of Senginken was closely related to the issuance and consequent withdrawal of the military script. This point is especially clearly illustrated in the case of the direct use of Senginken, as military script, in China after the outbreak of the second Sino-Japanese War. Indeed, the founding of the Japanese colonial monetary system is entwined with the

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4 "With the outbreak of the Russo-Japanese War our government commenced issuing military script and made silver the basis of the monetary system. Due to various factors, however, its circulation met with difficulty, and when our soldiers incidentally forced its use, many Koreans upon its receipt converted it into another currency. And, generally, prices set by the military script tended to be higher than the market price." Kankoku mokeru kaher to kinyu, vol 1, 1909, p 118. The total amount of military script exchanged, by the way, reached 5, 833,549 won. *Ibid* , pp 68-69.

5 "With the end of the Russo-Japanese War, the Japanese government commissioned Yokohama-shokin-ginko, which had branches in Newchwang, Manchuria, and Dairen, to issue notes-- one-, five-, and ten-yuan bills-- and also accorded it the right to the forced circulation thereof. Needless to say, this issuance of notes had, as its motive, the withdrawal of the military script previously issued." Ko Sŏng-je, *Shokummin-kinyu-seisaku no shuteki-bunseki*, 1972, p 83.

6 "The national currency of Manchukuo and other yen-based monetary units, which served as the tool for Japanese financial invasion of Asia, share the following characteristics first, according to the Japanese policy goal of unifying various currencies under the domination of the yen, they were created with political motives, and all of them were issued with deposits in yen as security. Second, under the policy of on-the-spot self-subsistence of funds for the Japanese army, they were similar to the military script, and acted as the military expenditure currencies, third, they all were obliged to combat against and replace the local currency so deeply rooted in the lives of the people. Their forced circulation and value depended on the productivity in Japan, and on their own amount of issue." Tani Ryōhei, "Chugoku-senryo chukin okeru mohonno kaher-kinyu-seisaku," *Chugoku no kinyu-seido*.
issuance and withdrawal of the military script, and both Daiginken and Senginken were no exceptions.

In order to understand the nature of Senginken, it is necessary to take a look at the establishment and changes of Sengin, Japan, after installing the Residency-General and completing various reforms in internal and foreign policies including Currency Readjustment, sought to found a new central bank, Kankoku-ginko [hereafter "Kangin"], in place of Daiichi in 1909. Many ideas were raised concerning the plan for the new central bank: some opposed it altogether; others suggested establishing the Taikangin; some, instead, opted for centralizing the Korean branch of Daiichi, still others favored the opening of the Seoul branch of Nichigin, which then would also manage all of Korea through the outlet. In relation to such arguments on the founding of a new central bank, two methods of issuing a currency for Korea were discussed. One, that the currency of Japan be used; the other, that a bank note only for Korea be issued. From among these alternatives, the Tokyo government and the Residency-General chose to establish a new central bank, Kangin, and to issue Kankoku-ginkoken [hereafter "Kanginken"]

What, then, is the background and aim behind such a choice? The two following questions must be answered, in order to effectively approach this problem: Why Kangin, in lieu of Daiichi, was founded, why Japan set up an entirely new central bank separate from that of Japan and issued colonial currency. The main issues in the Japanese Diet of then also centered around these topics.

Although the problem of establishing Kangin instead of Daiichi directly went against the interests of the latter, the then Resident General Ito Hirobumi actualized the plan. At first, he suggested that since it would not be dignified to have the mere branch office of a private bank in Japan manage the national treasury of Korea, it would be preferable to relocate the main office of Daiichi to the peninsula. Shibuzawa of Daiichi, however, on grounds that its operating base was Japan, refused, so Ito was left with the choice of pursuing the project of founding a new central bank. The idea was opposed by some Japanese since it superficially seemed to be yielding their rights, and there also was some friction due to the recompensation for

7 Akashi Teruo & Suzuki Kenku, Nihon-kinyushi, vol 1 (the Meiji era), 1957, p 69
8 Chosen-ginkoshi, 1987, p 33
the relinquishment of vested rights on the part of Daichi. It was, however, eventually realized after a compromise had been made. Of course, the founding of Kangin was, unlike its name, un-Korean and colonial. Although nominally set up in Seoul, Kangin recruited its president and all of the staff in Japan, and only two Koreans—Paek Wan-Hyŏk and Han Sang-ryong—counted among the 22 founding members. The initial duties were entrusted to the care of Tokyo, and followed the same regulations applied to Japanese corporates. In management, too, Kangin was to operate only with the consent of Tokyo.9

A more fundamental motive behind the Japanese establishment of Kangin in place of Daichi, however, seems to have been the need for a truly active exploitation of the colony. As for Japan, it was necessary to found a new central bank which would manage the national treasury, by issuing notes supply the capital needed for colonization, and through its branch offices capitalize the currency. But it went against the management policies of a private bank to depend on the bills issued by the central bank, for the restoration of the funds needed to dominate Korea. The situation is clearly illustrated by the “Establishment Plan of the Central Financial Agency in Korea,”10 drawn up by the Residency-General, to explicate the necessity of installing a new central bank to Daichi. According to this document, since Daichi is a private bank, the government lacks the prerogative to inspect and preside over its duties and functions. It is also pointed out that, because it pursues private interests, the government, which must often depend on the central bank for the public sale of the national bond and for other financial problems, cannot count on its assistance. Besides, by 1901 the scale of the Korean economy including trade had so expanded that to entrust the duties of the central bank to Daichi, merely the branch of a private bank with its roots deep in Japan, was actually irrational. Moreover, the already existing financial agencies-agricultural and industrial banks, financial co-ops and other banks founded by Koreans—were all under some protection of the colonial government financially. Without establishing a special banking organ, therefore, it was impossible to decrease the financial burden on the colonial government, hence the need for the founding of a new central bank.11

10 Chosen-ginkōshū, Appendix, pp. 900-903
11 “An Overview of the Recent Developments in Korea,” the Dong-A Ilbo, Sept. 20, 1921
There are other theories which, in relation to the establishment of Kangin, point out not only economical, but political, factors as well. According to Ko Sung-je, "the Japanese government, in reinforcing its domination in Korea, became inevitably obsessed with the avoidance of any international interference." He points out, as one of the motives behind the founding of Kangin, the fact that "Japan, having firmly established the stepping stone for political and economic expansion into Manchuria and Mongolia through the victory in the Russo-Japanese War, keenly felt the need to utilize the colonial central bank as a source of financial support." Such ideas may be understood in connection with the historical events which followed. It is, however, questionable whether Japan then needed to set up Kangin because of fear of international opinion, and whether she already had in mind the expansion of Kangin into Manchuria. Rather, the incentive directly behind its establishment was indeed economic, and unlike Taiwan-ginko, [hereafter "Taiwangu"] Kangin legally and mutually had no plan to expand overseas. In the development of events, of course, that Senginken functioned as the beachhead in the economic invasion of China by Japan is obvious.

Let us now turn to the reason for founding Kangin rather than the branch office of a Japanese bank. The arguments in favor of setting up a separate bank, in the Japanese Diet, can be summarized thus: First, since Japan was already endowed with various modern financial agencies, her banks needed only to operate as banks and follow the general rule of division of work. In Korea, however, it was necessary for the central bank to assume the duties of a commercial bank, due to the low economic level. It was pointed out that, in an area without banking organs, the central bank was under the obligation to open a branch office regardless of profitability; due to its policies, however, Nichigin was incapable of such a task. Second, there was a demand for the issuance of a separate bank note in Korea, for if Japan were to let Nichigin circulate in the economically unstable and borderless

12. Ko, ibid., p 65
13 Ibid., p 82
14 In the case of Taiwangu, it is stated in a petition for its establishment that the bank shall not be confined to Formosa only, but operate also in "southern China and the South Sea Islands". Thus, however, was not the case for Sengin
15 Nihon-kenyushi-shuryo, vol XV. Cf the hearings on "Law Re Sengin," in the Imperial Diet Minutes
colony, it would disrupt the base of the yen, which being a convertible note had to avoid any such risks at all costs.

Kangin, founded in 1909 owing to such motives instead of Daiichi, was in 1911 renamed Sengin after the Japanese annexation of Korea, and remained in existence to the end of the colonial era. Whenever there was a modification in the monetary system of Sengin, the question of uniting the currencies of Japan and Korea surfaced but was never realized.\(^{16}\) Especially in early 1920's, in connection with the readjustment of Sengin due to insolvent loans, it was questioned if the dishonored Sengin could still issue notes. Some suggested the opening of a Korean branch of Nichigin and the absorption of Senginken into Nichigin, although this was never realized.

After examining many solutions, the Japanese exchanged a memorandum concerning the establishment of a central bank with the government of Imperial Korea. And by making the Korean government sign an agreement with Daiichi, they resolved the founding of a colonial central bank different from Daiichi and any other bank in either Korea or Japan. The Korean government accordingly proclaimed the Kangin Law and took the necessary steps to entrust all of its duties to Japan. The structure of the central bank thus determined, and the principle that it was to retain a separate identity from Nichigin and to issue its own notes, were to remain unchanged till the end of the colonial era.

The background of the establishment of Sengin thus examined, let us now turn to the exact nature of its duties. Overall, Sengin could not only issue notes as the central bank, but also by loaning funds, with the deposits as the source, as would a commercial bank, was directly involved in the industrial economy.

Since Sengin also acted as a commercial bank, it differed in several aspects from Nichigin.\(^{17}\) First, there was a limit to mortgage on a loan, in the case of the latter, in that real property or the stocks of a company or a bank could not be used as security; in Korea, however, Sengin was free to loan funds with national bond and real goods as security. Second, while Nichigin could purchase or sell only public loan bonds, with the permission of the Finance Minister, Sengin was free to purchase all valuable securities.

\(16\) Especially in 1920's, the problem of modifying the format of Sengin, in connection with its readjustment, was for many years looked into, the same is true for 1936, with the invasion of China.

\(17\) Ko, *Ibid*, p 70
appointed by the Government-General. Third, unlike its counterpart in Japan, Sengin could, with the Government-General's authorization, act as an agent for another bank and give out loans to public institutions free of security. Such unrestricted and comprehensive loaning rights of Sengin were, in fact, for the exploitation of colonial Korea. The loans from Sengin at first were used, focusing on Japanese residential areas, for the solidification of the resettled Japanese, the expansion of commercial spheres of Japanese merchants, the acquisition of Korean land, the increased importation of Japanese manufactured goods (specially cotton), and for the augmented exportation of agricultural products to Japan. Later, Sengin's loans were also utilized for the construction of social overhead capital and for the buildup of the munitions industry. The aforesaid flexibility of the loans on the part of Sengin, in fact, was designed to serve this end.

Now, let us take a look at the overall characteristics of Sengin as the central bank of colonial Korea. Generally, a central bank has two functions: one, that of "the government's bank," where it acts as the financial advisor; the other, that of a "bank of banks," i.e., the ultimate source of loans to all of the commercial banks. Among these, the duties, as "the government's bank," of the central bank is to issue notes and to maintain its value, to manage governmental gold and foreign exchange holding, and to assist the government in borrowing funds. And its duty as the "bank of banks" is to provide commercial banks with funds, through rediscount. In principle, Sengin, too, operated in both capacities. Sengin, however, as the so-called "colonial bank," held the additional task of acting as a commercial bank. It also had, as the so-called "overseas bank," the burden of launching a monetary invasion under the dictum of Japanese imperialism.

Where, then, does the uniqueness of Sengin lie, in respect to an ordinary central bank? The fact that Sengin, under a special issue reserve system, issued notes, testifies to its being a central bank. Sengin, however, was exceptional in that it lacked autonomy as a central bank under colonial rule, was subordinate to the Government-General and Tokyo government, and especially could not freely issue notes. As a "bank of banks," it pursued a policy of providing commercial banks with funds and of reducing interest rates. In connection with the peculiar nature of its issue system, i.e., it had to maintain an equal value between Nichiginken and Sengunken, Sengin was curtailed in its rights to execute a financial policy designed to control the circulation amount of bills. Otherwise, Sengin as a "colonial bank" freely
loaned funds to agricultural, commercial, and industrial sectors, thus promoting colonization and exploitation, as an "overseas bank," it expanded into regions such as Manchuria, Siberia, and China.

3. The Issue System and the Nature of Sengiken

The order to discuss the issue system and the nature of Sengiken, the issue system and details of Daiginken must first be investigated. Daiginken was issued in 1902, as a sight bill of a mere private bank. Its circulation began to widen during the Russo-Japanese War, in the process of withdrawing military script, or of using Daiginken as a substitute for the military script. After legally going through the steps set by the Ordinance of Monetary Unit, proclaimed in 1901 by the Korean government, Daiginken was made the legal tender of Korea in 1905. The Ordinance of 1905 was a plan which, as an effort on the part of the Korean government to set up a unique gold standard, stipulated that the currency be equivalent to its counterpart in Japan, but also that after the standard coin had been minted the convertible note would be issued. Making use of this, Megata, while claiming that the Ordinance was being enforced, in fact did not cast any coin but masqueraded Daiginken as a new convertible note and legalized it. This was due to the fact that, dishked and well-known among the Koreans, Daiginken could never win their confidence without pretending to be something it was not. Koreans, of course, resisted and protested that Daiginken, with no standard coin and inconvertible into gold, could hardly be considered a gold-based currency. They, however, were already too much a part of the monetary economy that, in order to survive, the acception of the colonial currency was inevitable.

In order to circulate Daiginken, Japan caused a money panic amidst the people of Korea and in turn, making use of it, tried to disseminate the bank note through the establishment of colonial financial agencies. Along with the bill, the Japanese encouraged the use of a new subsidiary coin, and as a means loaned funds to the great merchants, with no interest, which proved effective. As a result, the total amount of Daiginken issued gradually increased, reaching 11,830,000 won by the time Kangin took over in 1909.18

Kangin for a period after its establishment circulated Daiginken, at the

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18 Chosen-ginkoshti, p 1096
same time issuing its own notes Sengin, founded in 1911 due to a change of name, likewise while retaining the old Kanginken issued its own bills. Thus Senginken was not only a direct antecedent to Daiginken and Kanginken, but was an extension of the former currencies in its characteristics and issue system.

Although Daiginken, as the predecessor of Senginken, claimed to have been issued according to the Ordinance of Monetary Unit and thus a gold-based currency, it was in fact issued with no gold reserve and, ironically, this was its very aim. But Daiginken was stipulated to maintain an exchange rate of 1:1 with Nichiginken. Before his appointment as the financial advisor to Korea, Megata had prepared the “Guideline for the Monetary System of Korea and Its Enforcement,”19 in cooperation with the three ministers of state, i.e., Prime, Finance, and Foreign Affairs Ministers. According to this document, the “minting of the standard coin is to be enforced after a delay” and it stresses that “by assimilating the monetary system of Korea to that of Japan, not only the two parties involved but international trade is to benefit.” Indeed, the distinctive characteristic of a colonial monetary system lay in the facilitation of trade and investment between the colony and its “motherland,” by way of connecting the currencies of the two parties; Japan endeavored to devise such a system.

For this end, Tokyo government accordingly contrived a reserve system especially for the issuance of Senginken. In principle, Sengin had to reserve the same amount of gold coins, silver bullions, or convertible notes from Nichigin in order to issue bills. Among this, however, the silver bullion could not exceed 1/4 of the total reserve fund. But Sengin, aside from the reserve fund above, was free to issue notes also with national bond, creditable stocks, or commercial paper note as security. And the limit on the amount of this security reserve issued was steadily increased: from the 10,000,000 won of the first years of Daiginken in 1905 to its doubled amount of the early period of Kangin issuance in 1909, then to the 30,000,000 won of Sengin, finally reaching a sum of 160,000,000 won20 in 1939. Aside from the aforesaid specie reserve and security reserve issuances, Sengin could, according to needs, obtain a permission from the Finance Minister and issue outside the limit. In the case of issuing beyond the limit, however, it had to pay an issue.

19 Ibid, PP 26-27 & c
20 Ibid, Appendix, p 830
tax, of which the rate increased from the 3% per an. in 1911 to the 3% in 1935. As has been shown above, the fact that issuance based on security reserve as well as specie reserve and that issuance outside the limit were allowed clearly evinces at the so-called elastic limit system.

In spite of frequent increase in the limit to the amount of security reserve, SenginKen continued to expand and issuance beyond the regulations was indeed becoming the norm, due to the outbreak of the second Sino-Japanese and the Second World Wars in 1939. As the balance of payments of SenginKen was under pressure in the process, as a relief measure there was a major change in the system in 1941 Japan, declaring in 1941 the “Law Re Temporary Privilege In Sengin and Taishin Laws,” stipulated that the amount of SenginKen to be issued be decided by the Finance Minister. This, unlike the previous elastic limit system, was an application of the maximum issuance limit. The limit, in 1941, was 630,000,000 won and continued to rise. With the issue reserve of SenginKen modified, Sengin was to hold the same amount in gold coins, silver bullion, convertible notes, deposits to Nichigin, national bond or other creditable stocks, or in commercial paper notes. Also, the Ministry of Finance ordered that more than 1/3 of its issue reserve be in specie, but unlike in the past, there was a change which acknowledged Sengin’s deposit in Nichigin as legitimate specie reserve. By the end of the war, however, such regulations concerning specie holding was not strictly adhered to.

What, then, is the characteristic of the issue reserve system of Sengin, considered more or less in consistency till 1941? The main difference, in the reserve system, between SenginKen and Nichiginken is that the former acknowledged the latter, and not gold, as specie reserve. This, in contrast to the fact that Taiwanzin, already founded in 1897 as a colonial bank by the Japanese, in the beginning recognized only gold and silver coins and bullions as currency issue reserve, was inferior. Under such a system, one can go as far as to say that, theoretically, Sengin could issue notes with no gold reserve whatsoever. In the first years of issuance, Sengin in fact had almost no gold in reserve and even later possessed very little of it, most of which was

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21 In the 9th clause of the Charter of Taiwanzin it is stated that “the Bank, in respect to issue of sight bills, is to supply its payment reserve with the same amount of gold and silver coins and silver bullions.” When a check of above 5 yuan was requested, the payment was to be made in gold coins. Nihon-kimusho-shi-shi, vol XV p 1169. Cf. “Memorandum on Taiwanzin.”
managed by the Japanese. Moreover, much of the issue reserve of Sengin, which was Nichiginken, was held by the Tokyo branch office, and even this practically disappeared with the change in the system, or was turned into deposits in Nichigin or into other asset stocks in 1941.

In connection with the nature of Senginken, let us first take a look at the reality of gold reserve in Sengin. Generally, Sengin could expand its gold bullion holding by: not sending Korean-produced gold to Japan, after sending the gold to Tokyo, having it cast as gold coins and then importing them, converting Nichiginken at its bank of issue, importing gold from overseas. Sengin actually imported a substantial amount of gold from the U. S. in 1919, and even requested gold conversion to Nichiginken. However, instead of directly yielding to such requests, Nichigin contracted an agreement with its Koreran counterpart and handed over the so-called Seika-hutto-shosho. A deed which was given in exchange for gold bullions to the recipient at the Mint, “Seika-hutto-shosho” could be exchanged for convertible notes or gold coins at Nichigin, upon its production. And it’s holding amount was to be disposed of as gold bullion holding in 1919, and as gold coin holding after 1920 statistically. As a result, the gold bullion reserve superficially rose; it was, however, only a case of fabricated statistics, and “Seika-hutto-shosho” was no better than Nichiginken. Japan was, all in all, simply faithful to the principle that gold bullions within her border should remain stationary.

In respect to the motive of Japanese absorption of Korean gold and to the peculiarity of the issue system of Senginken, the movement of specie and bullion in Korea is particularly noteworthy. Although the transfer of specie and bullion generally depends on trade accounts, in the case of Korea, they were shipped out to Japan quite one-sidedly. There certainly existed a mechanism for transferring Korean gold, most of which was to be used to mint gold coins. Japan certainly imposed on Sengin the extra task of buying up gold, but it was Sengin itself which "very willingly set out to buy gold since, by purchasing gold bullion with Senginken and upon its receipt at the Mint, would be able to request Nichiginken, thus preserving the specie reserve of Nichigin and at the same time fulfilling its own.”

22 "The self-same Bank, having established partnership with the U S, has decided in exchange to import 6,000,000 won of gold ingot " Mael Shinbo, Sept 12, 1919
23 Chosen-ginkosha, p 200
24 Ibid, p 134
From the opening of Korea, Japan, as a means of maintaining its specie holding, had commanded Daiichi to endeavor to absorb Korean gold; this was true also in the case of Sengin, which was to deliver sums of gold to the Mint. The central bank of Korea, from Daichi, Kangin, to Sengin, for bearing the burden of procuring gold, was in turn granted a certain amount of funds from Nichigiken with no interest. Before the Annexation, Sengin was under an obligation to supply the Mint with Korean gold worth 1,100,000 won per annum. After the Mint was to receive above 3,600,000 won of the same.

Therefore, though it would be untrue to say that Sengin completely lacked gold reserve, it was mostly only fictitious. This inclusion of Nichigiken in the specie reserve of Sengin as a compensation for the absorption of Korean gold, of course, was against the true concept of reserve, i.e., to be gold or silver coins only. With precious little of specie reserve in the most basic sense of the term, that the total amount of specie reserve issue was, even with the inclusion of Nichigiken, surpassed by that of security reserve issue by twice, clearly indicates the flat money characteristics of Sengin. Moreover, even in what little amount existed of the specie reserve, not only gold but Nichigiken mostly were in the form of the abroad species.

What, then, distinguished the reserve system of Sengin, represented by Nichigiken? Legally, Sengiken was issued, according to the Ministry of Finance’s instruction, with over 1/3 of specie reserve as the basis. But after 1942, specie reserve began drastically to dwindle, with the result that there was only a minute sum left two years later. Such changes were caused by changes in the issue reserve system, yet the ratio of Nichigiken in the specie reserve statistically reached up to 80%.

Such reserve of Nichigiken, the nucleus of the issue reserve of Sengin, could on one hand be increased by an augmentation in exports to Japan, loans from Tokyo government and the money market, and by in-Korea investment on the part of the civilian sector; it could, on the other hand, be reversed. Besides these, there was the faulty remittance of funds by the Koreans in Japan, which accounted for the outflow of Nichigiken. Sengin could not always provide itself with a reserve of Nichigiken, as its amount of note issue generally increased only, and this was a source of frustration.
Was Senginken, under such a reserve system, a gold standard? We shall approach this question from two viewpoints: first, whether Senginken was a gold convertible currency, second, whether gold played a fundamental role in settling the trade accounts of Korea.

First, let us take a look at the convertibility of Senginken. As explained above, Daiginken and Senginken were both based on Nichiginken reserve and issued under the premise that they were of equal value with Nichiginken. There was, however, one slight difference between the two, which could falsely give the impression that they really were not the same. The face of the old Daiginken read, "The face value of this note may be converted into the Japanese currency at any branch office in Korea." On the faces of Kanginken and Senginken, it was written, "In converting this note into gold coins or convertible notes from Nichigin, the same amount is to be defrayed as above." But there was no ground on which a client could protest if he were not paid in gold coins, once Senginken had been exchanged for Nichiginken. The difference between the two regulations was misleading in the extreme, and Daiginken and Senginken were essentially the same. There, of course, may have been cases where Senginken as converted into gold coins, upon request from an individual, but these at any rate were the exception.

It is possible to investigate the problem of Senginken and gold conversion in two historical periods. First, while gold was under an embargo, from 1917 to 1929, conversion into gold coins was, in fact, halted in Japan and Korea. Although Japan did not, in the "Gold Embargo Act" of 1917, codify the arrest of gold conversion, she included a regulation stipulating that "anyone who, designing to sell as bullion or to use, collects or damages gold coins is subject to a penal servitude of under 3 months or to a fine of under 100 yen." Therefore, when a civilian were to request conversion, Nichigin with the above regulations inquired as to how and why the gold coins were to be used, thus in effect refusing conversion. A similar Decree of the Government-General of Korea, No 65, was also proclaimed in the colony.

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26 Cf. Article, "Restriction On the Export of Gold Coins or Gold Bullions 
27 "Despite what the law stipulated, however, it was not easy to convert notes into gold coins at a Japanese bank, due to all the inquiries concerning the purpose and usage thereof, executed in a separate chamber. It is even said that, though one cannot be sure of it, a policeman afterwards taile the client." Suzuki Shimayoshi, "Enkan no kachini tsuite," Nihon-kimyosha, vol. XX, p 497
this period, since Japan also placed an embargo on gold it was actually not a gold-using nation, and the overseas value of the yen was rapidly falling below its legal price. The same, of course, went for Sengin ken.

Naturally, the next question would be how many gold coins were actually given out as conversions to Koreans outside the period of the gold embargo, it is, however, difficult to discern the truth. But it is clear that Sengin, regardless of the regulations, forbade gold conversion to ordinary citizens, as the position it took after the embargo on gold was lifted in 1930. Sengin then, knowing that even if there were to be clients requesting gold conversion, unlike in Japan, “since there evidently was no need in the colony for the circulation of gold, if anyone requests it, grant his wish only after inquiring into his reason thereof. In the following cases, conversion is to be permitted one, for settling the accounts in overseas trading; two, for use of the gold only as a sample.” Since Sengin would not assent, if Korean nationals were to obtain gold coins and conversion, they theoretically had to first exchange Nichiginken and afterwards request the conversion into gold coins at the head office of Nichigin. The situation had been the same before 1917, and the whole point is illustrated by the scarcity of gold coins in the issue reserve of Sengin.

Due to such policies of Sengin, throughout the colonial era Koreans not only never requested gold conversion but also never applied for conversion into Nichiginken, either. Also, since Senginken was the legal tender, there was no need for monetary conversion in everyday life.

On the other hand, even when Koreans requested conversion into Nichiginken and not gold coins, it was, overall, no easy task. The so-called specie reserve among the issue reserve of Sengin amounted only to 1/3, and in its branch offices conversion could be postponed until the arrival of Nichiginken. When one considers that, at the time, industrialized nations like the U.S., Great Britain, and Japan were provided with almost the total amount of specie reserve for the notes issued, the fact that Sengin’s reserve of Nichiginken reached only 1/3 of the whole was a greatly low standard of

28 “On the Reception Policy of Sengin,” economic section, the Dong-A Ilbo, Jan. 12, 1930
29 “Since, as is well known, convertible notes of Nichigin may be exchanged for gold coins at all times, they have been included in specie reserve. There are but few, however, who doubt that this is more convenient as, in the present situation, only Japanese nationals request conversion, and not into gold coins but into convertible notes.” The reply of a government official from the Imperial Diet Minutes. March 13, 1911 Nihon-ken ushu-shinsetsu, vol. E XV
specie reserve.

Seen thus, the control of Nichiginken in order to issue Senginken was more for the convenience of transferring capital and goods with Japan, rather than as the reserve for the Korean demands of conversion. For example, it was absolutely necessary that Senginken be equal to and convertible into Nichiginken, when Japanese corporates wished to settle their profits and losses in or from doing business in Korea, and to realize their earnings into actual currency.

If, however, Nichiginken was to be directly circulated instead of issuing Senginken separately for the aforesaid aim, then Japan would have to supply an additional sum of gold reserve according to her banking laws, for the issuance of the notes. There, too, was the danger of directly disturbing her economy if Japan were to overissue Nichiginken, in order to rule her colonies or to invade China. Consequently, a separate bank, i.e. Sengin, was established and was to issue its own notes, given that the exchange rate of its currency to Nichiginken be maintained 1:1. Also, while Nichiginken could be circulated in Korea, the colonial currency had no place in Japan. It may be argued, theoretically, that there would be no difference if indeed all Senginken could be exchanged for Nichiginken, however, such a phenomenon could never occur, and if it did, Japan doubtlessly would have suppressed it by force.

The above discussion is confirmed also in the process of rejecting the proposition for the merger of Senginken and Nichiginken. The Japanese standpoint is clearly stated in the "Memorandum Re the Senginken Question,"\textsuperscript{30} drawn up by Sengin in 1936. There were some who voiced the opinion that it was "anachronistic to issue separate notes in Japan and Korea when, after 20 years of administration, there no longer is any need of a currency solely for the colony, especially with the remarkable developments in transportation, communications, and industry, not to mention the recent strengthening of financial ties between the two regions." Against such an argument, Sengin records that it, being "a superficial theory of control based on the false assumption that Japan and Korea are essentially equals and incapable even of distinguishing between the two, is not worthy of \textsuperscript{31} consideration." This without disguise shows the true opinion of the Japanese

\textsuperscript{30} \textit{Chosen-ginkoshin}, Appendix, pp 940-944
\textsuperscript{31} \textit{Ibid}, p 942
authorities.

It has already been stated that Japan, in order that fundraising in Korea should not directly affect her, created a separate bank note for the colony. In the same way, she directly used SenginKen as military script, or established similar local banks when the situation was more or less stable, in the course of the Manchurian Incident and the second Sino-Japanese War. Thus Japan, by issuing colonial currencies, was able to procure military funds, not to mention colonial expenses.

In the process, Sengin in China and Manchuria played the role Nichigin had played in Korea beforehand. For example, Sengin, according to accounts books, had the right to withdraw and use the notes of Manshu-ginko [hereafter “Mangin”] for setting up a deposit of the same amount on Mangin’s behalf. The latter, however, was not free to use the deposit thus obtained, but was, rather, obliged to maintain it as issue reserve. This shows the link between the monetary systems, devised to supply colonial expenditure on the spot since Imperial Japan lacked sufficient capital. For example, if Sengin was the closest link to Nichigin in the sphere of yen-based currencies whose issue reserve were Nichiginken, Mangin or Chugoku-ren-go-junbi-ginko [“United Reserve Bank,” hereafter “Churengin”] were in fact secondary links with Senginken as the issue reserve.

Let us now examine whether or not Senginken was essentially based on gold. As has often been mentioned, the hypothesis of Senginken’s being a gold standard in turn stems from the gold basis of the Japanese currency. But since Japan itself was not on gold standard during 1917-1921, Senginken then cannot be said to have been gold-based. Therefore, the gold basis of Senginken is meaningful only when the same system was in practice in Japan.

Legally, the currency system of Japan prior to 1917 enjoyed the freedom to mint, convert, and trade gold, all of which are typical of a true gold standard. Japan, however, was not like Great Britain, where merchants widely used gold coins, helped to develop commercial banks which in turn united to form the Bank of England and issued notes, and where gold coins and bank

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32 “The Agreement of Duties Between Mangin and Sengin,” signed on December 6,1935, stipulates thus Sengin is to supply the necessary amount of Manginken funds, by exchanging an equivalent in its own currency. Mangin’s gold-and-yen funds are, in principle, to be deposited only in Sengin. Mangin’s payments to Japan are to be forwarded via Sengin. Tan, Ibid., p 412. The same rules applied to Chugoku-ren-go-junbi-ginko, according to a Deposit Agreement.
notes freely circulated among the public, Japan was still far from a mature, laissez-faire, bourgeois society. In Japan, banks, whether central or commercial, started out with the regulation and the protection of the government, and their accumulation of credit in turn developed civilian corporates; there, as a result, had never existed the practice of directly circulating gold. This point is related to the fact that the establishment of a standard coinage system in Japan, instead of being based on the circulation of gold and silver within her borders, was based most of all on the balance of international accounts. Accordingly, it may be stated that Japan, regardless of what the regulations stipulated, maintained a gold exchange standard where gold coins were not actually circulated.

We now must investigate whether or not the monetary system of Korea, like that of Japan, was a gold exchange standard. Since Seoginiken could be exchanged for Nichiginken at a rate of 1:1, and was in fact issued with much of the latter as its basis, there were superficial similarities which could make it a likely contender for the name of gold exchange standard. There is, however, a clear resistance to this term, and in order to discuss it, first the general characteristics of the gold standard must be examined.

A typical gold standard presupposes the freedom to mint, convert, and trade gold. But even without fulfilling all these conditions, if the international value of a national currency is tied to a certain amount of gold, then such a monetary system is essentially in one way or another gold-based. And, to maintain its value outside the nation of issue and to guarantee its self-adjustment mechanism, the free trade of gold is a prerequisite. This is to say that, under a gold standard, the ultimate means of settling international trade is gold, which also manages and mediates the exchange rate between different currencies. Also, gold is transferred as a result of international trade balance, which helps to stabilize the amount of currency in issue and the local market prices in each country, not to mention maintaining a balance in international trade accounts. A gold standard, therefore, basically maintains the international value of a currency as well as focusing on international balance.

From such a standpoint, it may well be supposed that, in Korea, Nichiginken, a gold convertible note, played the part of gold. When Korea traded with a nation other than Japan, Seoginken, according to the credit of its conversion reserve, i.e. Nichiginken, also acquired the same value. And in the case of a trade imbalance on the part of Korea, it had to be settled
ultimately by the gold on which Nichigiken was based. In the process, if Korea were to be in deficit due to an imbalance in its trade, the amount of Nichigiken issue reserve of Sengin, was reduced thereby limiting the issuance of the colonial currency. In this respect, an equal self-control mechanism seems to apply to Korea also, under the gold standard. And since this point is fundamentally characteristic of the gold standard, Sengiken may also be thought of as a sort of gold exchange standard.

In reality, however, Korea traded with Japan only, in most cases, and her trade with the 33 nations of the West was by day dwindling. And even in the trade with Japan, which certainly was the most important, there was the problem that the aforesaid general principles of a gold standard did not apply. Essentially, the settlement of accounts between Japan and her colony did not depend on gold. For example, if Japan were to an trade imbalance with her colonizer (it must be considered, however, that when gold is included in the products exported, Korea overall profited from doing business with Japan) the reserve of Nichigiken would decrease, and vice versa. But since Korea was a colony, neither could it demand the gold conversion of Nichigiken, nor was its request granted. And even when the export surpassed her import, Korea was obliged to export her gold and in lieu import Japanese notes. The ultimate goal of Japanese financial invasion was to include Korea in the circulation sphere of fiat money, not of her species. Sengin system indeed was the actualization of such motives. Likewise, the reason behind Sengin’s expansion into Manchuria was the exportation of Sengiken, which would help forestall the outflow of Nichigiken as issue reserve, 34 due to trade imbalance.

The main refutation against the theory that Sengiken was gold-based is

33 "Trade in its purest sense, i.e. trade with nations other than Japan amounted to 20-30% of the Korean finance. Over 90% of this was dealings with Manchuria and China, however, especially with the former. It is difficult not to state that Korean commerce is seriously lacking in internationality." Chosen-boekashi, the Trade Association of Korea, 1943, p 114

34 "During my years at Sengin, the overseas trade of Korea (including Japan) was so unbalanced that imports completely overwhelmed exports. (It goes against the aim of developing the Korean economy, in this case, to raise interest rates.) Since ignoring this problem would threaten the reserve base of Korea or bring on some other dilemma, as the last solution, expansion into Manchuria was decided on. The trade in that territory being lucrative and always in black letters, the expansion of Sengin, it was thought, would increase the circulation of its notes and thereby enable the bank to redeem a part of its outside debt with the credit gained in Manchuria, and also to purchase the export exchange thereof." Takahisa Toshio, "Yunyu-choka-kessamo kusum," Chosen-tochino kankoto hihan, p 166
that the international receipt and disbursement between Japan and Korea were executed, not by gold, but by mconvertible notes. Such a standpoint does not deny that, from the viewpoint of those who regard Korea of then as only a part of Japan, Senginken may be considered a gold exchange standard. And such third part nations, i.e. Europe and the U. S., could very easily have considered Sengin of the period 1905-1917 as a nominal and actual part of the yen bloc. This period, however, is extremely limited, and moreover, as Sengin, which occupied the greater part in the Korean trade with Japan, from the first did not have the substance of a gold standard, the above opinion does not correctly illustrate the true nature of the Korean monetary system.

From such a viewpoint, this writer thinks that, for those who consider Korea to have been but a prefecture in the Japanese Empire, it is possible to call Senginken of the years 1905-1917 a yen-based gold exchange standard. As for the Koreans then, however, since Senginken was not gold-convertible, one must define its peculiar nature as an mconvertible note system. Sengin did not, with gold as the intermediary, maintain a fixed exchange rate with Nichiginken. Also, the Nichiginken held by Sengin functioned not as gold convertible notes but as mconvertible notes, in Korea.

Moreover, the fact that Korea, in trading with the West, depended on gold as the ultimate means of settlement does not prove that it was a gold standard; rather, it would be more reasonable to say that Japan, for the exploitation of Korea, settled the deficit in trade with the West, with yen, for the "benefit" of her colony. Such relations between Korea and the third nations remained unchanged, even after the arrest of the gold standard and the turnover into a managed currency system, in Japan. Regardless of modifications in the Japanese monetary system, Korea continued to need Nichiginken as the issue reserve. Indeed, the core of Senginken system was the maintenance of equal value in respect to the yen, without any gold reserve or expenditure.

And if Senginken is not defined as an mconvertible note system, the significant fact that in Korea's trade with Japan, the flow of finance and of goods were separated, could not be explained. It is often argued that the loan of funds from Japan to Korea meant that much m-Korea investment. This, however, is due to an unclear understanding of the nature of Senginken issue system. For example, if the Nichiginken loaned to Korea was only used as issue reserve, and if it had no purchasing power in relation to Japan,
it was not a transfer of capital but of piles of paper. It is significant only in that it functioned to convert into actual currency, in Japan, the result of colonial exploitation, e.g. interest, ground rent, and other such profits.

On the other hand, it must be remembered that Senginken, issued with Nichiginken as reserve, was mostly loaned to Japanese nationals or corporates by which a sterile currency was used to help exploit the Koreans. The records of the period state thus: "The reason and aim of the existence of Sengin, as the representative and repository of Japanese capital in Korea, is to lay the burden of an expenditure of 400,000,000 won per an on the Koreans, for the issuance of a check called Senginken. Due to this, the most basic lives of the Koreans are being daily destroyed and, along with the expansion of Japanese capital into Manchuria, Senginken is also being circulated in that region as a representative of Japanese capital. The formerly friendly relations between the Chinese and Korean nationals in Manchuria, as a consequence, have been destroyed, and this phenomenon will reoccur in Russian territories after the Japanese-Russian commercial treaty has been signed." The figure 400 million in the document is a calculation of the amount of Senginken issued (velocity of circulation multiplied by the amount of currency issued), with an interest rate of 10%; it well reflects the Korean attitude toward Senginken.

Thus, it is evident that Senginken was an elaborate and sophisticated monetary system designed to exploit Korea. Indeed, since Senginken lacked convertible reserve in gold, it was not a marker of value but acted only as fiat money. Such characteristics, however, were concealed under the colonial rule.

4. Conclusion

This treatise has thus examined, in investigating the establishment of Sengin and its note issuance, how Senginken operated more as an inconvertible bill than as a gold-based currency. Since it was issued with no gold reserve and the conversion into gold was prohibited, it will not be altogether difficult to see that it was indeed an inconvertible note, from the Koreans’ viewpoint then.

Concerning the theory that Senginken was a gold standard on an inter-

35 "Koreans and Senginken," editorial, the Dong-A Ilbo, April 11, 1925
national level, however, it has been shown that the bill does in some characteristics admit of this hypothesis, namely for the years 1905-1917 and 1930-1931. This idea, it must be kept in mind, fundamentally defines Korea as a mere part of the Japanese Empire. Moreover, since the periods applicable are relatively short and trading with third parties was of secondary importance to Korea, this writer does not support the aforesaid theory. Therefore, the nature of the monetary system of colonial Korea will be defined as an inconvertible currency under a fixed exchange rate system Japan, under such a system, settled the Korean deficit in international trade with third party nations, with the gold carried off from her colony. Gold was in fact a controlled good during the first half of the colonial era, and it is not an exaggeration to say that there was no gold reserve for the issuance of Senginken.

With such a monetary system in operation, financial and real goods transactions were separated. The analysis of this problem remains a significant task, because the commonly accepted view that Japan, in loaning funds to Korea was actually investing in the colony, provides with the excuse for not rebutting the theory that Japan actually helped the modernization of Korea. As a ground work, this paper has attempted to clarify the monetary system of Korea and to define the transaction of funds thereof; the reality of Japanese investment, however, remains unresolved, for future research.

GLOSSARY

Chosen-ginko(Sengin) 朝鮮銀行(鮮銀)
Chosen-ginkoken(Sengiken) 朝鮮銀行券(鮮銀券)
Chugoku-reno-juhri-ginko (Chureng) 中國聯合準備銀行 (中聯銀)
Daiichi-ginko 第一銀行
Ito Hirobumi 伊藤博文
Kankoku-ginko(Kangin) 韓國銀行 (韓銀)
Kankoku-ginkoken(Kangiken) 韓國銀行券(韓銀券)
Manshu-ginko(Mangin) 滿洲銀行 (滿銀)
Megata Tanetaro 目賀田種太郎
Nippon-ginkoken(Nichigiken) 日本銀行券(日銀券)
Seika-hutto-shosho 成貨拂渡證書
Shibuzawa Eiichi 盛澤英一
Shobyo 鈔表
Song Su-man 松秀萬
Takangin 大韓銀
Taiwan-ginko(Taiwangin) 臺灣銀行
Yokohama Shokin-ginko 横濱正金銀行