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**AN ANALYSIS OF THE
BANK OF CHOSEN'S
BALANCE SHEET**

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Johns Hopkins Institute for Applied Economics,
Global Health, and Study of Business Enterprise



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By Jieun Park

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About the Series

The Studies in Applied Economics Series is under the general direction of Professor Steve H. Hanke, co-director of the Johns Hopkins institute for Applied Economics, Global Health, and the Study of Business Enterprise (hanke@jhu.edu). The authors are mainly students at The Johns Hopkins University in Baltimore.

About the Author

Jieun Park is a senior at The Johns Hopkins University in Baltimore, Maryland double majoring in chemical and biomolecular engineering and economics, with a minor in financial economics. She graduate in 2018. She analyzed the balance sheet of the Bank of Chosen because she is from Korea and she thought that since the balance sheet of the Bank of Chosen is written in relatively inaccessible old Chinese, an analysis in English would be readable for both Koreans and Americans. This paper was written in the fall semester of 2016 when she worked as a research assistant for Professor Steve H. Hanke.

Abstract

The Bank of Chosen was a Korean bank created under Japanese colonial rule by the Residency-General (the Japanese colonial authority) to help modernize the Korean economy for Japan's benefit. The bank was established in 1909, continued until the end of Japanese colonialism, and ended its existence by handing over its remaining activities to the central bank for South Korea—the Bank of Korea—after Korean War. The Bank of Chosen not only existed in Korea (Chosen) but had branches in areas of China that were Japanese colonies. It functioned as a tool of Japanese financial imperialism. This paper mainly focuses on analyzing the balance sheet of the Bank of Chosen—digitized here for the first time in an accompanying spreadsheet workbook—and how it changed over time. The paper also offers a brief background history for a better understanding of the functioning of the bank.

Acknowledgement

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Keywords: Bank of Chosen, Bank of Korea, balance sheet, assets, liabilities
JEL codes: E58, F54, N25

Introduction

After the Meiji Restoration in 1860s, Japan underwent a quick transition toward modernization. Japan imitated the leading Western powers in several ways, including building a colonial empire. Japan's colonization of Korea (also called Chosen, Choson, or Chosun, the name of its then-ruling dynasty) took its first step in 1876 through the Kangwha Treaty, which ended Korea's status as a tributary of China, opened Korea to Japanese trade in certain port cities, and gave Japanese in Korea extraterritorial status. These provisions were like the provisions in treaties the leading Western powers had made with Japan in the 1850s. Japan was victorious in wars with China in 1894-5 and Russia in 1904-5, knocking them out as competing influences in Korea. In 1905 Korea became a Japanese protectorate. Japan installed a Resident-General who exerted great influence on Korean affairs.

Before the establishment of the Bank of Chosen, the Japanese Dai-Ichi Bank functioned as the central bank of Chosen, acting as an instrument of financial imperialism over Chosen, and reforming currency in Korea.¹ However, the Dai-Ichi Bank was a private commercial bank, not an official central bank of Korea at that time. The opinion spread that the Korean central bank should not be a branch of the Dai-Ichi Bank.² Thus, a separate bank, the Bank of Chosen, was established. As we will see, it combined central banking and commercial banking functions.

In July 1909, the Chosen government enacted the Korean Bank Ordinance with the approval of the Japanese Residency General. The Bank of Chosen was originally called the Bank of Korea. However, as Japanese annexation of the country took place in 1910, a revised version of the law, the Bank of Chosen Regulation, was enacted in 1911 and the bank was renamed the Bank of Chosen.³ The Bank of Chosen functioned as the central bank of the whole of Korea until October 15, 1945, the end of the Japanese colonization of Chosen. From 1945 to 1950 it was the central bank of the American-occupied southern part of Korea—in 1948 the southern part of Korea below the 38th parallel of latitude became independent as the Republic of Korea. In 1950, the Bank of Chosen transferred all its functions as a central bank to the newly created Bank of Korea, which is still functioning as the central bank of South Korea. At the same time, it transferred its functions as a commercial bank to Sangho Bank.⁴

Because Chosen was under Japanese rule, the Bank of Chosen made its currency unit the yen, equal to the Japanese yen and in practice often considered to be the Japanese yen. The name of the currency changed to the Korean won in 1950 when the Bank of Korea was established as the new central bank.⁵ Because of currency redenominations, 1000 won in 1950 was worth 1 won in 2004,⁶ while 1 U.S. dollar was worth 1194.3 won in 2004.⁷ From

¹ Kahm 2012: 73.

² Kahm 2012: 76.

³ Lee (no date).

⁴ Bank of Korea, Planning Division [2016]: 1.

⁵ Bank of Korea, "Change in South Korean currency units": 1.

⁶ Bank of Korea, "The Oldest Bank of Korea Note," 2007, 1.

this we can calculate the scale of operations of the Bank of Chosen in present nominal currency units. In the early years of the Bank of Chosen, 1 Japanese yen was equal to 0.75 grams of gold, making its exchange rate roughly 10 yen per pound sterling and 2 yen per U.S. dollar. For most of the 1930s, when Japan was off the gold standard, the yen was pegged to the pound sterling at about 17 yen per pound.

Organization of the Bank of Chosen

When the Bank of Chosen was established in 1909, 30,000 out of its 100,000 shares, with an initial value of 100 yen each, were owned by either the Korean or the Japanese government. Of the remaining shares 1,000 were offered to members of the Korean and Japanese imperial families and the rest were distributed to subscribers.⁸ From this, we observe that there were both Korean and Japanese shareholders, although the chance to participate in the initial subscription was primarily offered to the privileged.

In the beginning, since the Bank of Chosen was established to carry on tasks that had been performed by the Dai-Ichi Bank, most of the managers were former Dai-Ichi employees.⁹ It was hard for Koreans to be hired by the Bank of Chosen. However, after Japan invaded China in 1937, the Bank of Chosen faced a shortage of Japanese workers, so it hired more Koreans. In 1938, Ku Young So became the first Korean to attain a managerial position at the Bank of Chosen.¹⁰

Like the Dai-Ichi Bank, the Bank of Chosen functioned as both the central bank of Korea and as a commercial bank. Issuance of bank notes, which was one of the major functions of the Dai-Ichi Bank, was transferred to the Bank of Chosen.¹¹ Bank notes were issued through Bank of Chosen's General Affairs Department.¹² There were legal limits to note issuance. The ceiling, originally 30 million yen, increased to 50 million yen in 1918 and later increased further.¹³

In its role as the central bank, the Bank of Chosen frequently lent to other financial institutions. There do not seem to have been any episodes where it was dependent on the other financial institutions or the Bank of Japan for liquidity at a critical juncture.

The balance sheet of the Bank of Chosen is digitized in an accompanying spreadsheet workbook. In the balance sheet, around 1916 the Matsuda Bank appears as an entry on both the asset and liability sides. This is an indication of Matsuda Bank's importance, which will be described below.

⁷ Bank of Korea (no date), "Korean Economics Statistics System," 1.

⁸ Kahm 2012: 86.

⁹ Kahm 2012: 258.

¹⁰ Kahm 2012: 261.

¹¹ Kahm 2012: 94.

¹² Kahm 2012: 89.

¹³ Kahm 2012: 94.

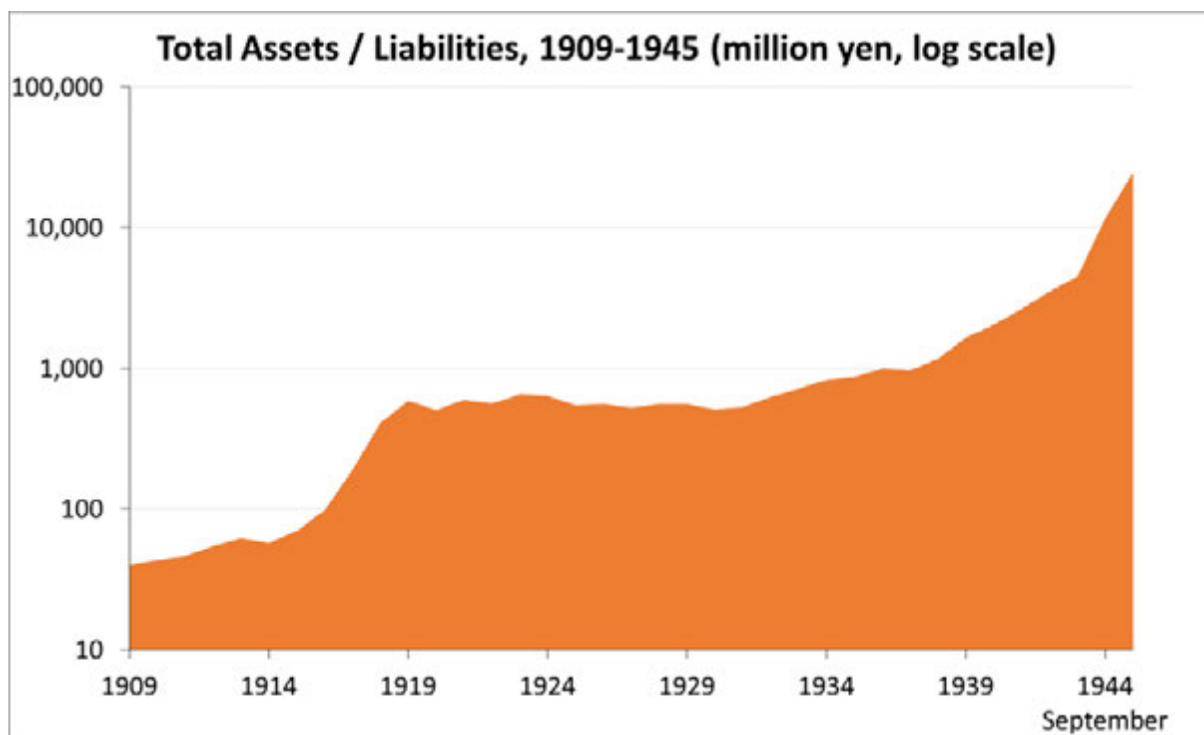
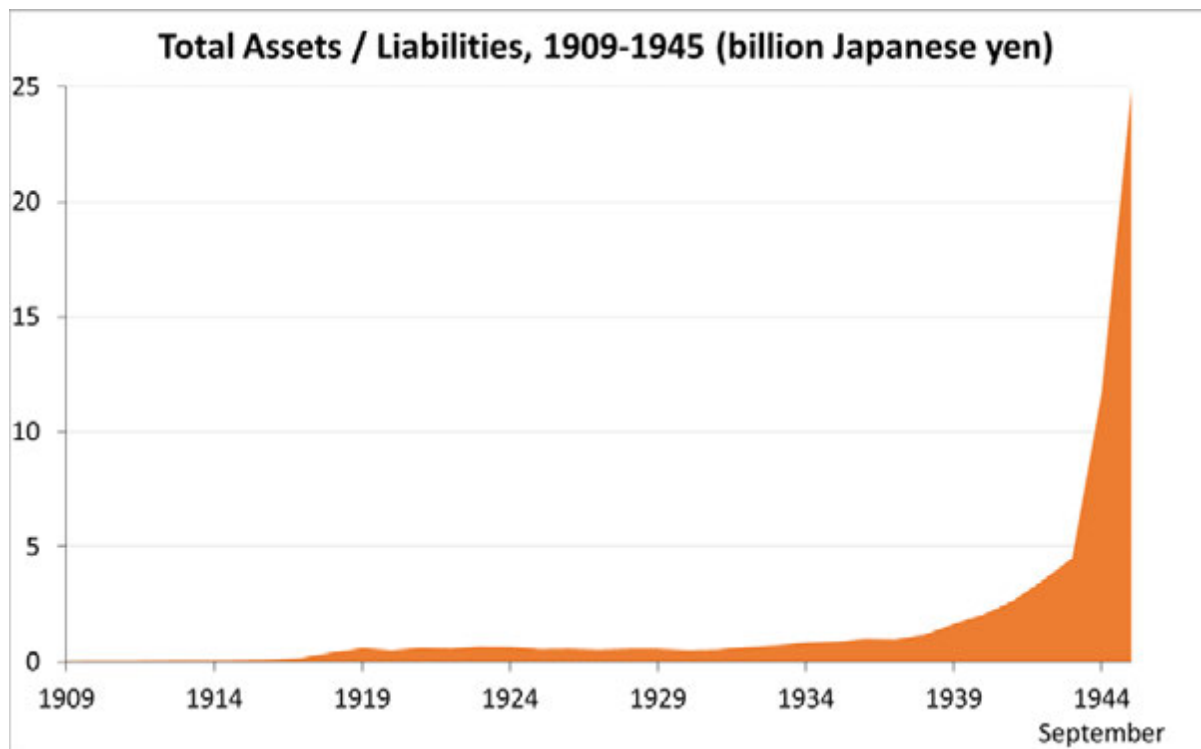
Data Sources and Overview of the Bank of Chosen's Balance Sheet

The official monthly statistical release of the Bank of Chosen changed its name and form several times. From 1910-1911, its official name was the Korean Bank Monthly Release. From 1912 to 1924, its name was the Bank of Chosen Monthly Release. From 1925 to 1946, its name was the Bank of Chosen Monthly Statistics Release. The website of the Bank of Korea has photographic copies of most issues of the Bank of Chosen Monthly Statistics Release and the Bank of Chosen Monthly Release. However, there seems to be no balance sheet information in the releases from 1912 to 1924. The December balance sheet information from 1925 to 1939 is digitized, but from 1940 until 1945, there seems to be a change in format and loss of information. The monthly balance sheet information is missing in many cases. Accordingly, the source of balance sheet information from 1909 to 1919 in the accompanying spreadsheet is from the book *Economic History of Chosen*, issued by the Bank of Chosen to commemorate its first decade. The accompanying spreadsheet workbook contains the full data. Since the sources mentioned are primary but incomplete, they were used to check if the data collected corresponded with each other. For data from years where they are incomplete, another source of full balance sheet information was used: a Japanese book titled *Chosen Ginko shi*, which means *History of the Bank of Chosen*.

From 1940 to 1945, both the monthly data release of the Bank of Chosen available on the Bank of Korea's website and *Chosen Ginko shi* lack December balance sheets. This could be because wartime conditions in both Japan and Korea prevented the Bank of Chosen from either organizing or releasing proper monthly reports. Given that these two reliable sources both lack December balance sheets, it seems likely that there are no December balance sheets available during those years.

This paper will analyze the balance sheet by examining its development during three periods. The first period is 1909-1919, when Japan imposed a system of military rule on Korea. The second period is 1919-1929, the era of so-called cultural rule. The last period is 1929-1945, known as the era of annihilation rule.

First, let us offer an overview of the size of the Bank of Chosen's balance sheet during the entire period of Japanese colonialism. The graphs below show the overall size of the balance sheet on a regular scale and on a logarithmic scale. There were three periods when the balance sheet expanded quickly: 1917, 1931, and 1939. On the top graph below, only the last increase is easily noticeable. The soaring nominal assets and liabilities reflect the effects of Japan's war against China and then World War II in the Pacific. On the bottom graph, the 1917 increase is also readily apparent, and the 1931 increase less so.



Military Rule Period, 1909-1919

Korean political history under Japanese rule is often divided into three periods, which, conveniently, correspond to an initial expansionary phase, a time of stasis, and another expansionary phase (at least in nominal terms) for the balance sheet of the Bank of Chosen. During the period from 1909 to 1919, Chosen became a full-fledged colony of Japan. This period is known as the “military rule” period. Japan severely repressed freedom of expression in Chosen, such as by preventing Koreans from releasing any press materials and using military police to rule Chosen. The old precolonial policies were in many cases destroyed.¹⁴ Financially, this was the period when Chosen’s financial system, including the currency (through currency unification), was absorbed into that of Japan since Japan wanted to profit from exports and investments in Chosen and calculate profits and prices in a convenient way.¹⁵ For Japan, Chosen was the bridge to the next targets for conquest, China and Manchuria. The “military rule” period lasted until March 1, 1919, when Koreans assembled in huge demonstrations in favor of independence. In response, Japan changed its tactics of rule, as a later section explains.

Balance Sheet Analysis of 1909-1919

As mentioned, the balance sheet from the book *Chosen Ginko shi* is used as the main source of data since it provides data for the entire existence of the Bank of Chosen. However, for many years, total assets and liabilities shown in *Chosen Ginko shi* and *Economic History of Chosen* differ. In 1914, when total assets and liabilities match in both sources, the bank note issues also match. In other years, total assets and liabilities differ between the two sources and even figures for banknotes differ, which should not happen since the issuance of banknotes should be an easy fact to determine. Perhaps one set of figures excludes the bank’s operations outside of Korea. Since my ability to read Japanese is limited, I was unable to delve into *Chosen Ginko shi* beyond its statistical tables. I leave the matter as a point for later researchers to resolve.

From the opening balance sheet below, we can already observe some distinctive features of the Bank of Chosen. One of the bank’s major functions in the beginning was taking care of the currency unification: the overdraft from “consolidated currency” is almost 20 percent of total assets in 1909. The loan to the Dai-Ichi Bank of 7,888,751 yen occurred because of the imperfect transfer of control over the currency reserve. The currency reserve in the Dai-Ichi Bank was backed by securities that were left as a debt of the Bank of Chosen after all the other functions and currency reserves were transferred to the Bank of Chosen.¹⁶ The existence of banknotes on the liability side shows that the Bank of Chosen did gain the privilege of issuing banknotes in place of the Dai-Ichi Bank.

¹⁴ Kwon 2004: 208.

¹⁵ Kwon 2004: 216.

¹⁶ Kahm 2012: 94.

Full Balance Sheet of the Bank of Chosen, December 1909 (amounts in yen)

Assets		Liabilities	
Capital receivable	7,500,000	Capital	10,000,000
Overdraft from consolidated currency	7,979,910	Bank bills	13,439,700
Time loan	1,516,618	Notes payable	217,867
Overdraft	415,191	Deposits	14,256,823
Notes discounted	1,407,324	Borrowing from government	1,200,000
Interest bills of exchange	416,830	Loan for foundation	30,000
due from financial institutions	6,311	Borrowing	500,000
Loans of branches	4,823,183	Borrowing from other branches	678,085
Loan on Dai-Ichi Bank	7,888,751		
Securities	150,000		
Land, buildings, equipment	1,212,118		
Construction in progress	472,252		
Money for establishment	30,000		
Gold and silver bullion	233,091		
Gold and silver [i.e., coins?]	6,242,588		
Net loss	92,302		
Error	9,992	Error	-54,002
Total	40,376,477	Total	40,376,477

Comparing these facts with the balance sheet collected for the years 1909-1919, the overdraft from consolidated currency takes up about 20 percent of the asset composition in the beginning but disappears from 1911. Also, the amount of securities owned by the Bank of Chosen continually increases until 1919. This shows that in the beginning, the bank almost had no securities, because securities did not get transferred to the Bank of Chosen from Dai-Ichi Bank. The increase in the amount of securities implies that the Bank of Chosen could fully cover the function formerly fulfilled by the Dai-Ichi Bank by the end of the military rule period.

The spreadsheet workbook accompanying this paper reproduces annual balance sheets as they appear in the source documents. The graphs in this paper show the balance sheet in a simplified form that combines categories of the original balance sheets for analytical purposes. "Foreign assets" in the graphs mean gold, silver, or financial assets that are claims on places other than those in the bank's areas of operation or Japan, since Japan and Chosen were in effect a unified monetary system. There seem to have been no foreign liabilities explicitly noted as such in the original balance sheets, though some liabilities in other categories may have been foreign.

The next page shows the categories in the simplified balance sheet. The simplified balance sheet attempts to show, to the extent possible, how the Bank of Chosen's assets were divided among major sectors of the economy, much as the International Monetary Fund does today in its statistics. However, the full balance sheets do not offer any detail on who issued the securities that the bank held. Nor is there any detail on the liability side on the sources of deposits or of most of the bank's borrowing. Archival research would be needed.

Simplified Balance Sheet of the Bank of Chosen

Assets	Liabilities
Foreign assets	Foreign liabilities (in practice, zero)
Owed by government	Notes
Owed by financial institutions	Deposits
Owed by nonfinancial private sector	Owed to various creditors
Securities (no breakdown by sector available)	Capital and surplus
Owed by shareholders (uncalled capital)	Other
Other	

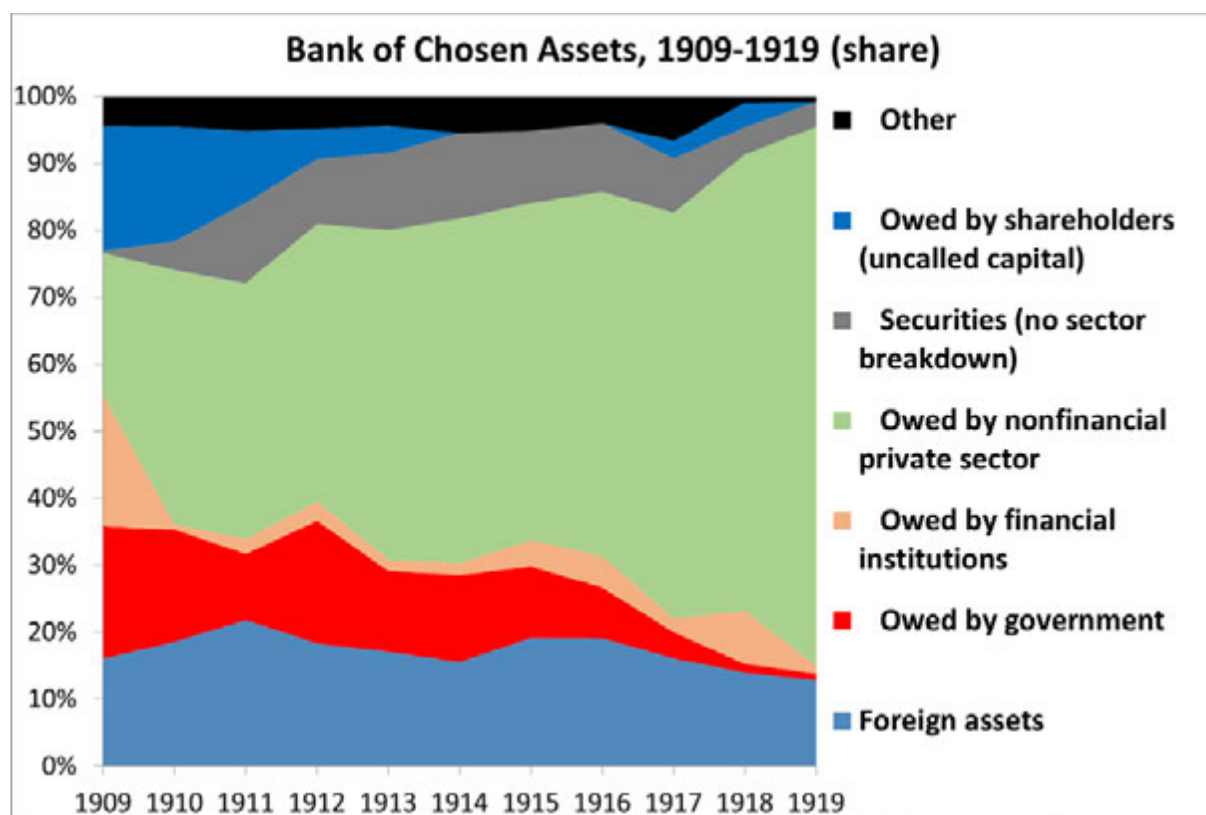
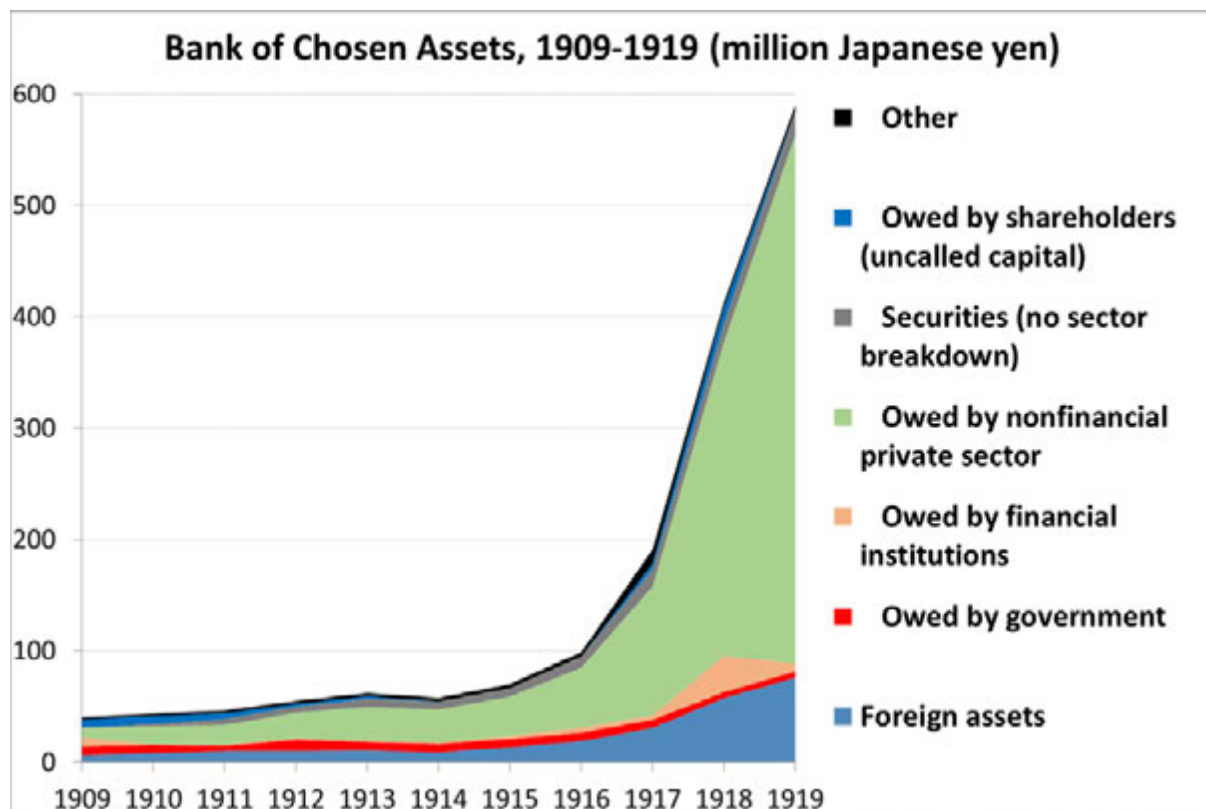
Bank of Chosen Asset Composition from 1909-1919 (next page)

The asset composition graph at the top of the next page shows that the size of the Bank of Chosen grew nearly 15-fold during the period, from 40 million yen to 590 million yen. The small size of the bank and the Korean economy in the early years is due to complications caused by the currency unification with Japan that was still in progress, in addition to the depression Korea suffered until 1913.¹⁷ However, the outbreak of World War I in 1914 soon fueled an increase in transactions. Japan entered the war on the Allied side and conducted limited military operations, notably the seizure of German colonies in the Pacific. The Korean economy experienced increased demand for its products arising from wartime activities in Japan and other Allied nations. Both graphs on the next page show strong increases in assets owed by the nonfinancial private sector. There is a corresponding diminution in relative importance of all other asset categories, although the share of foreign assets in total assets diminished only modestly.

As discussed later, the Bank of Chosen expanded into Manchuria, over which Japan was trying to exert increasingly strong influence as the next step in its colonial expansion. The bank's published statements do not separate assets in Korea from assets in Manchuria or Japan. It is certain that part of the rapid expansion of the Bank of Chosen toward the end of the military rule period was the result of its branches in Manchuria. In proportion to the size of the Korean economy, the Bank of Chosen's total assets, including those in Manchuria, were 9 percent in 1911, the first year of GDP calculations for Korea. They grew to 32.1 percent in 1919.

It is interesting that the great expansion of the bank occurred in lending to the nonfinancial private sector. After the first few years of the bank, explicit loans to the government were insignificant or zero. It is likely that lending to the government and holdings of government securities were part of the other asset categories. In the source balance sheets, the Securities category, which is also a category in the simplified balance sheet, contains no detail about what types of securities were held. Determining that information would involve further research beyond the scope of this paper.

¹⁷ Condelario 1950:46-47.



Bank of Chosen Liability Composition from 1909-1919 (next page)

Liabilities of course also increased dramatically during the military rule period, matching the asset increase. Most liabilities were in the form of bank notes and deposits. The percentage of notes in total liabilities increases from 1909 to 1911, drops, rises again in 1915, then decreases, ending slightly below where it began and averaging somewhat over 30 percent for the period. The percentage of deposit increases and decreases throughout the period but ends close to where it started. The big expansion is in funds owed to the nonfinancial private sector, which makes a huge jump in 1919 because call money loans and acceptances appear for the first time on the original balance sheet as liability items for the bank. Unfortunately no sources in English or Korean describe the reasons, though it is possible that *Chosen Ginkō shi* has a Japanese-language account that I was unable to read.

Expansion into Manchuria

The Bank of Chosen performed two major functions for Japan. First, it provided capital for the industrial development and the overall financing of Korea, where Japanese rule was already entrenched. Second, it supported Japan's expansion in northeast Asia beyond Korea, particularly by functioning as the fundamental financing institution for the Japanese colonization of Manchuria.¹⁸ Russia and Japan vied with the weak Chinese central government for influence in Manchuria in the early 20th century. After victory in the Russo-Japanese War, Japan displaced Russia as the dominant foreign influence in the part of Manchuria nearest to Chosen. Japan increased its influence in the succeeding years as China's central government weakened under the political tensions that ended the monarchy in 1911. Japanese influence grew further during the brief republican interlude that was succeeded by "warlordism," in which China dissolved into a set of fiefdoms, one being Manchuria. In 1931 Japanese forces would invade and occupy Manchuria, which would then become a puppet state of Japan.

Before World War I, Chosen was in depression and experienced trade deficits and a chronic outflow of specie.¹⁹ Manchuria, in contrast had a trade surplus with Japan,²⁰ so the thinking was that the Bank of Chosen could establish a specie reserve through expansion into Manchuria. The currency in Manchuria was different at that time from that of Japan, so the Bank of Chosen, because of its experience with the currency reform in Chosen, was thought to be a suitable institution to function as the central bank for Manchuria. In 1913, a branch of Bank of Chosen was established in Manchuria.²¹ In the late 1910s, when the expansion of Bank of Chosen into Manchuria began in earnest, the loans of Bank of Chosen increased strongly, as did its profits.²²

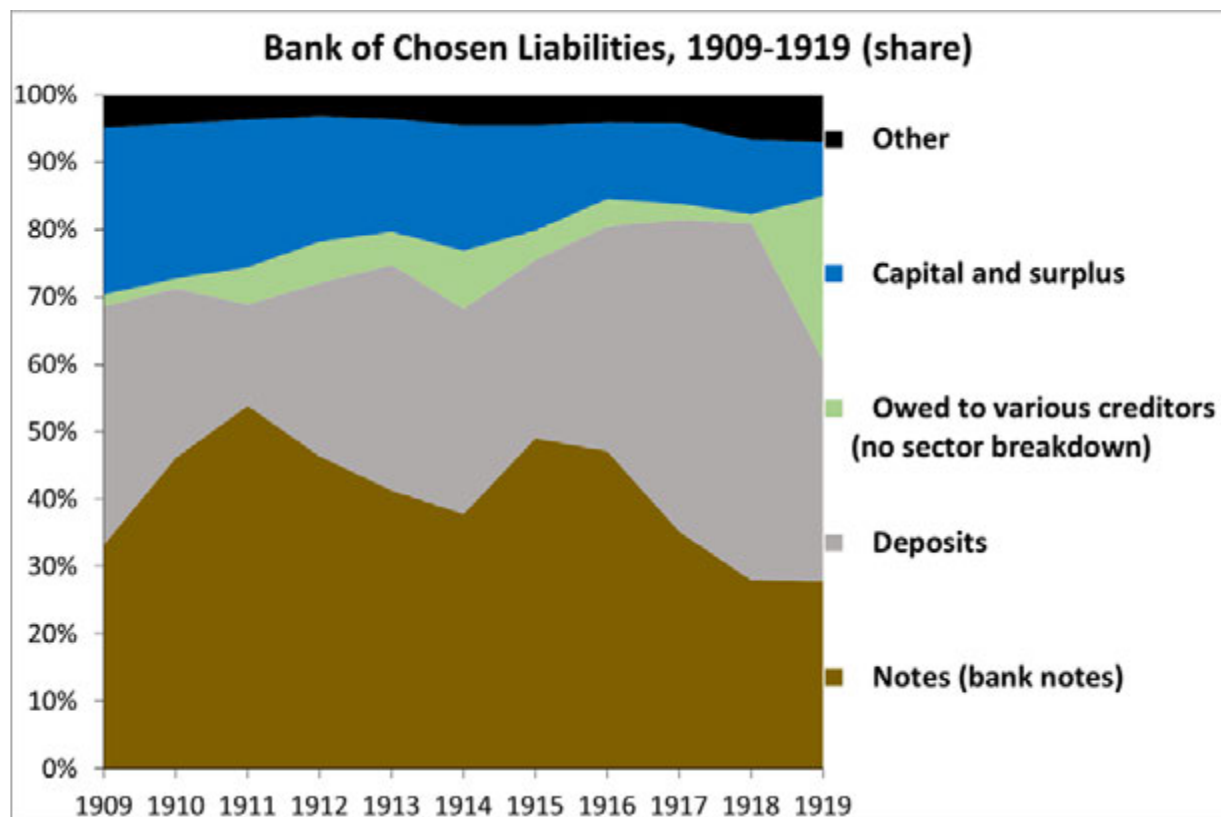
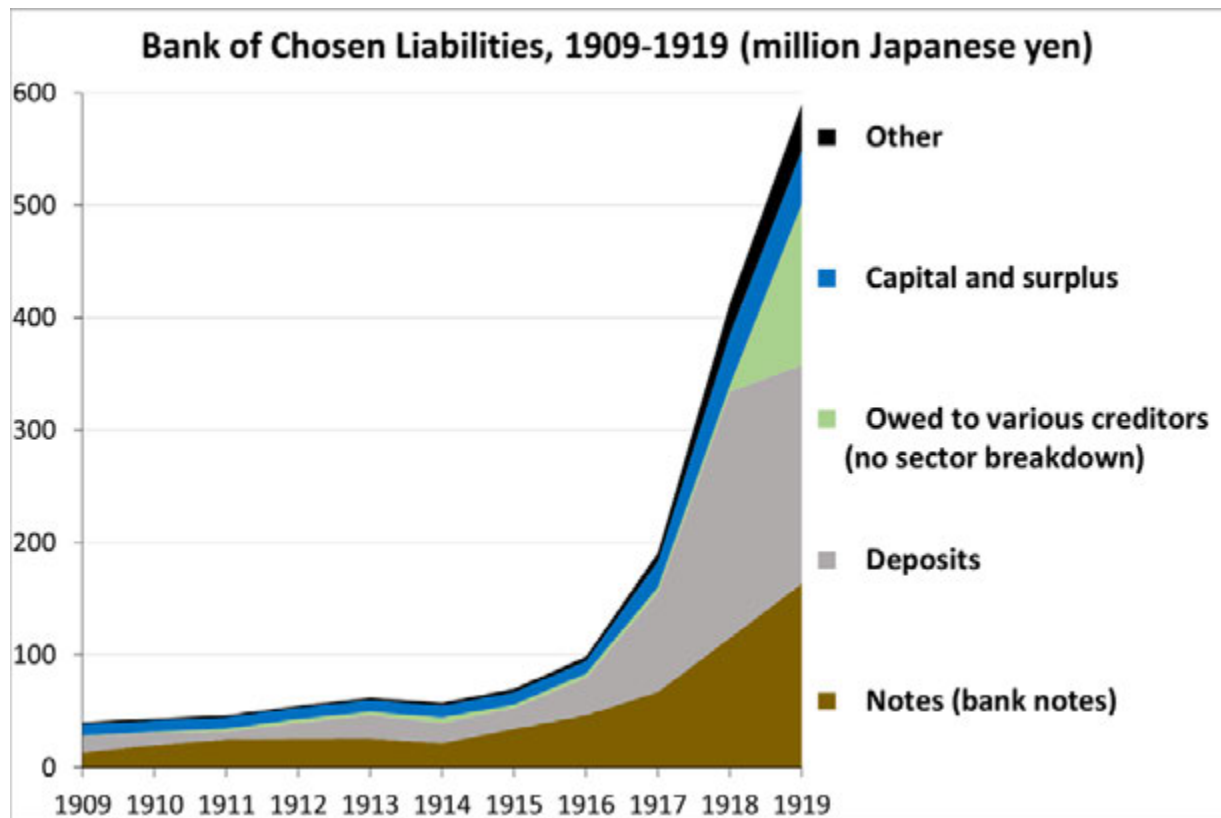
¹⁸ Kwon 2004: 235.

¹⁹ Kwon 2004: 235.

²⁰ Kwon 2004: 235.

²¹ Condelario 1950: 47.

²² Kwon 2004: 25.



Matsuda Bank

In the source balance sheets, from 1916 to 1918 there are specific asset and liability categories for transactions with the Matsuda Bank. As interest in business with Russia grew, the Bank of Chosen started to cooperate with the Matsuda Bank, which had a branch in Vladivostok.²³ The Matsuda Bank was nominally a Japanese bank but in practice seems to have been an arm of the Bank of Chosen in disguise.²⁴ After the Siberian Intervention of 1918, in which the Japanese army occupied eastern Siberia to oppose the Bolsheviks and further Japan's interest in territorial expansion (ultimately without success), the Bank of Chosen followed the Japanese troops and took over the Matsuda Bank as one of its branches. Japanese troops withdrew from Siberia in 1922, and the Bank of Chosen closed the Vladivostok branch.

Cultural Rule Period, 1920-1928

On March 1, 1919, Koreans engaged in massive demonstrations in favor of independence. The Japanese government realized that its tactics of military rule had promoted resistance among Koreans, creating the conditions for an independence movement. During the so-called "cultural rule" period that followed, the Japanese government took a different course, attempting to assimilate Koreans into the Japanese mentality through influence on Korean culture. Japan lessened the overt use of force and cultivated pro-Japanese Koreans to convince other Koreans to submit to Japanese. This continued until the Great Depression in America in 1929, which also affected the economy of Japan.

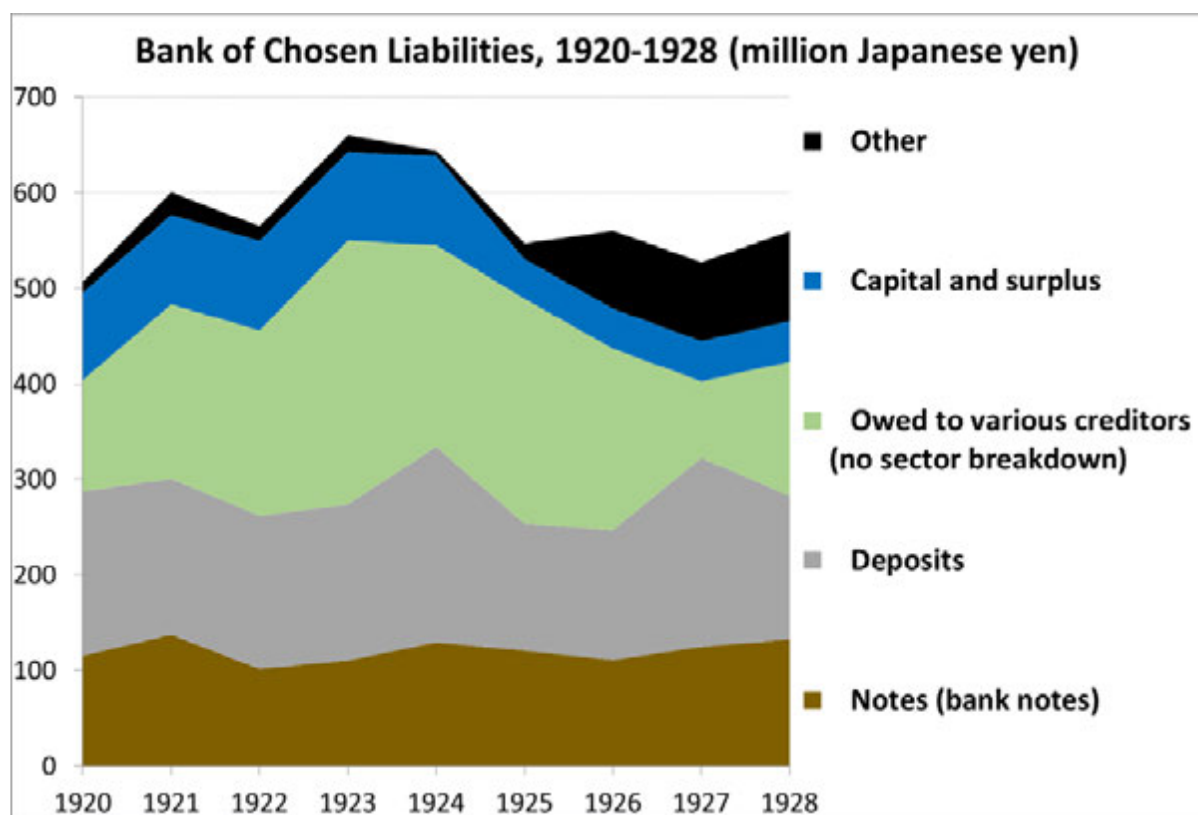
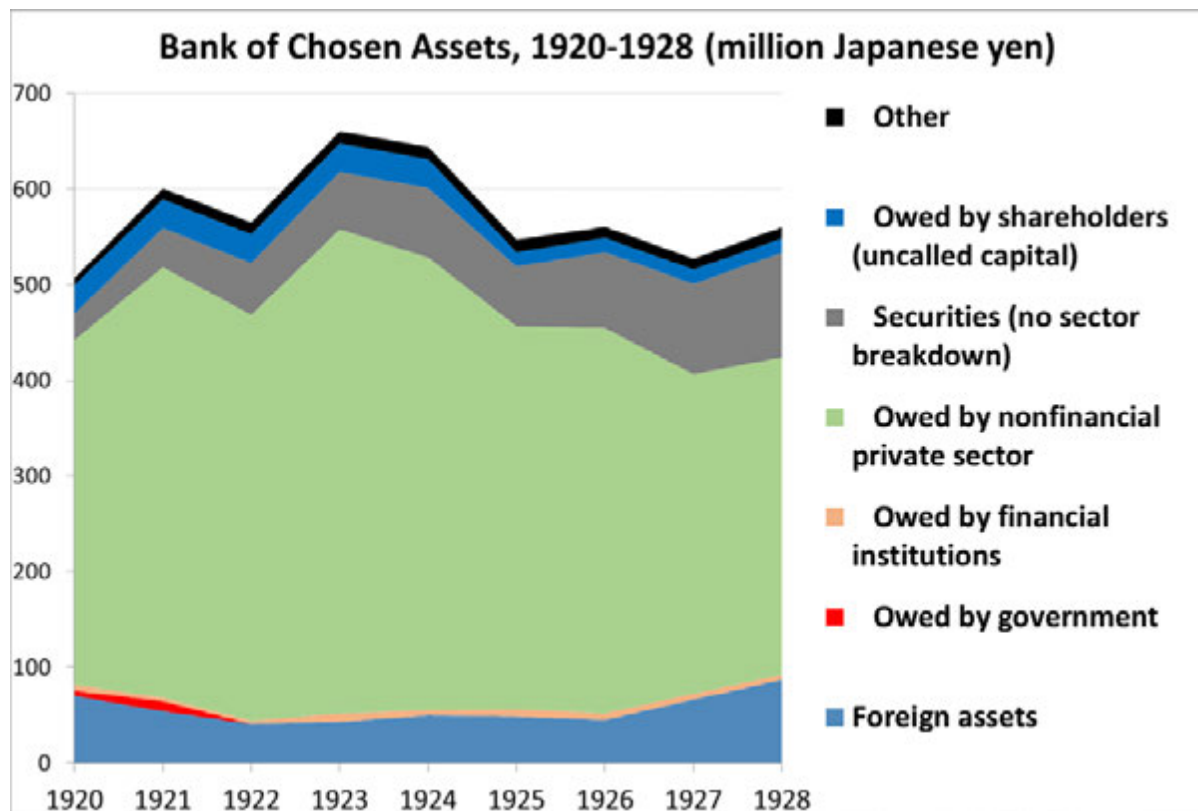
Bank of Chosen Asset Composition from 1920-1928 (next page)

While the Bank of Chosen experienced sharp growth starting in World War I, the years 1920 to 1928 can be said to be stagnant. The size of the Bank of Chosen did not increase much during the cultural rule period. Overall assets increased and decreased, but the fluctuations show no consistent trend. In the source balance sheets, as in the simplified balance sheet that is the basis for the graphs, there was not much change in the overall asset composition throughout the entire period except for a decrease in overdrafts related to "consolidated currency" (currency unification) and a slight increase in the amount of securities. The assets owed by the nonfinancial private sector were around 70 percent of the total assets during this time which means the Bank of Chosen's main business continued to be lending to the nonfinancial private sector.

Because assets and liabilities were largely stagnant during this period, graphs showing percentage shares of various categories are omitted, though interested readers can find them in the accompanying spreadsheet workbook.

²³ Kahm 2012: 190.

²⁴ Bacino 1999: 112.



Bank of Chosen Liability Composition from 1920-1928 (previous page)

Bank notes and deposits still comprised more than half of all liabilities. Looking at the source balance sheet, from 1923, an item simply labeled “borrowing” starts to increase. In the simplified balance sheet, it appears in the category “owed to various creditors.” As with certain of the asset categories, there is no breakdown by sector in the source balance sheets, so it is not possible to determine whether the source of the funds borrowed was in Korea or Japan, and whether it was loans from other financial institutions or borrowing through capital markets.

Difficulties of the Bank of Chosen in Manchuria during the 1920s

In the beginning of the 1920s, the Bank of Chosen had 18 branches in Manchuria and 10 branches in Korea.²⁵ Therefore, Manchuria was probably more important to the bank than Korea at the time. In the early 1900s, China was still on a silver standard, while Japan had been using a full-fledged gold standard system since 1897. The Bank of Chosen followed Japanese practice and conducted its accounting based on the gold standard. There was competition between Chinese banks and the Bank of Chosen within Manchuria. In the key port city of Dalian, the local branch of the Bank of Chosen strongly insisted that the local commodity exchange adopt the gold standard. In response, the Chinese stopped trading on the exchange to express their opposition to the gold standard.²⁶

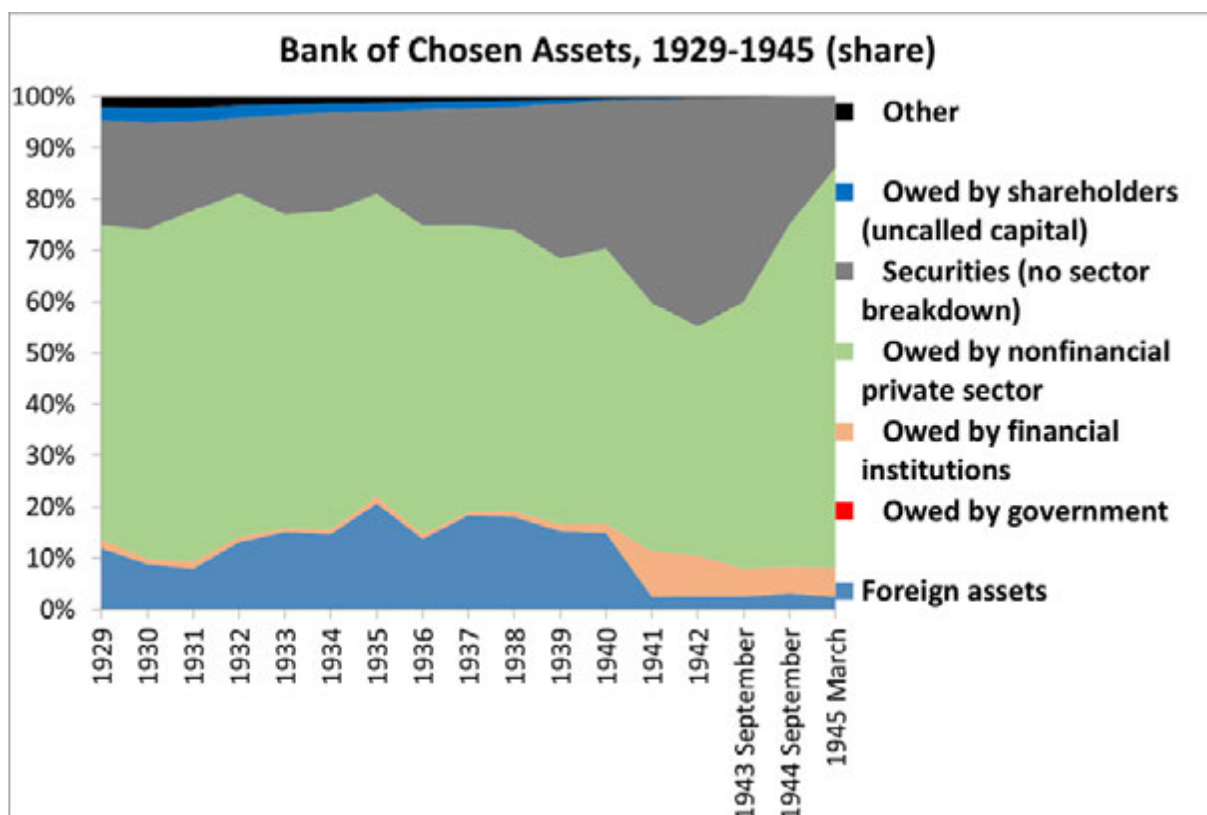
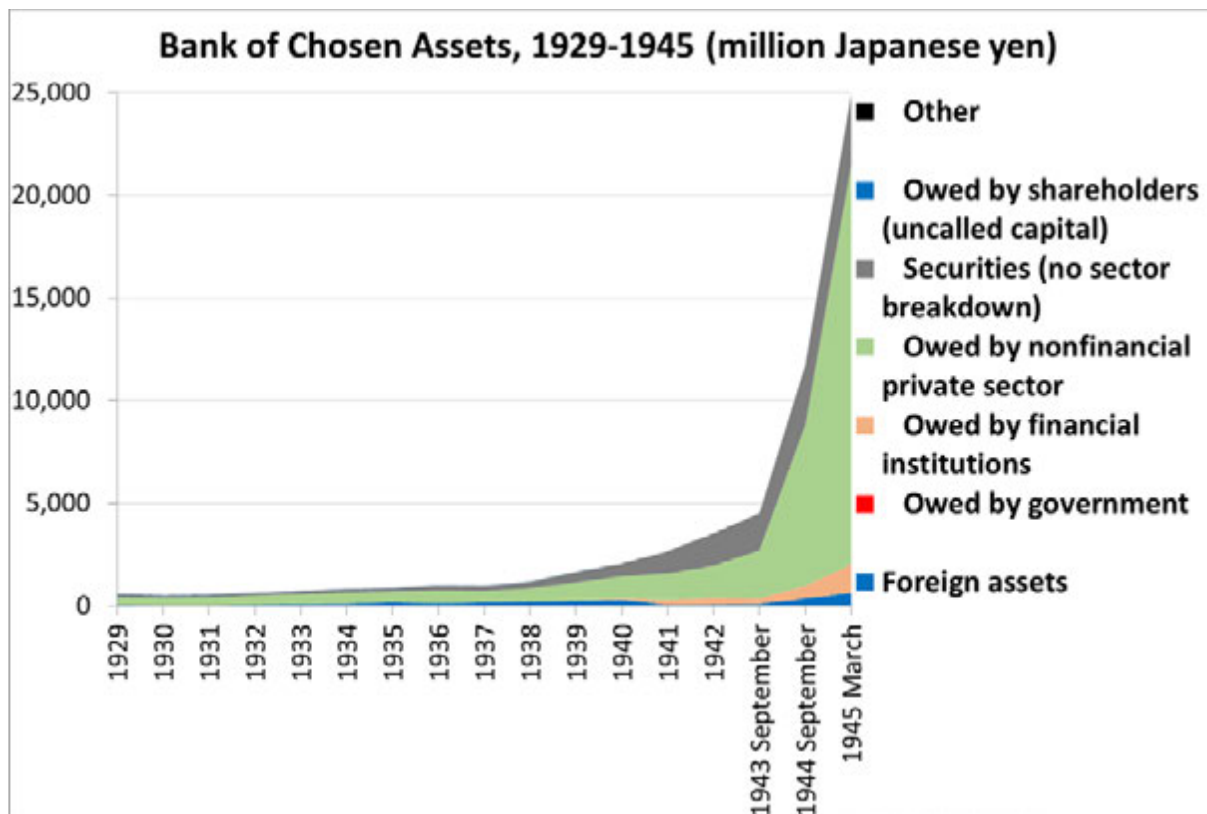
Manchuria had developed into a large exporter of soybeans after the Trans Siberian Railway was originally built cutting through Manchuria to Vladivostok, a more direct path than staying within Russian territory. That portion, known as the Chinese Eastern Railway, was granted under a Chinese lease and opened in 1901. The railway made possible cultivation for export that previously would have been stymied by transportation costs. The Bank of Chosen was heavily dependent on the soybean trade for profits in Manchuria. However, after World War I, the price of soybeans dropped drastically and the Manchurian government decided to export soybeans directly, without the bank as a middleman, to deal with the price drop.²⁷

The difficulties that the Bank of Chosen experienced in Manchuria help explain the overall stagnation of its balance sheet during the 1920s.

²⁵ Kahm 2012: 195.

²⁶ Cho 2011: 173.

²⁷ Cho 2011: 177.



Annihilation Rule Period, 1929-1945

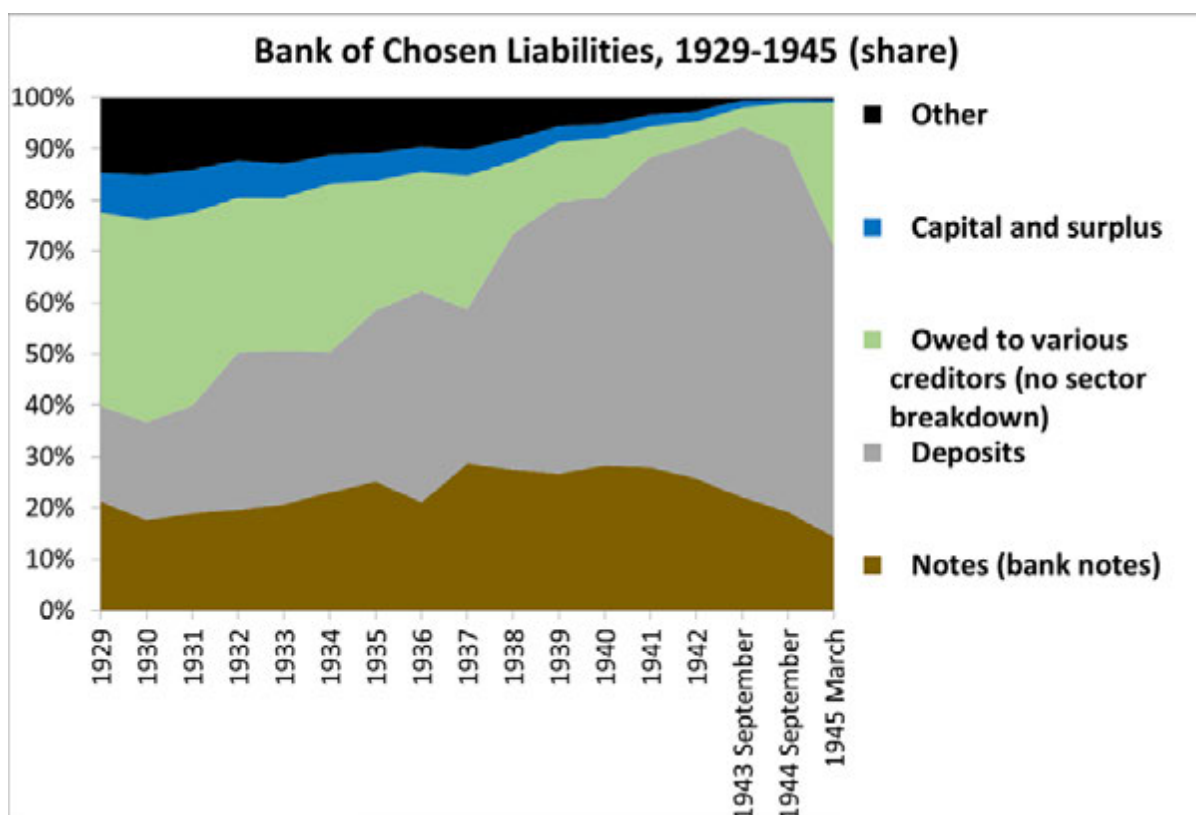
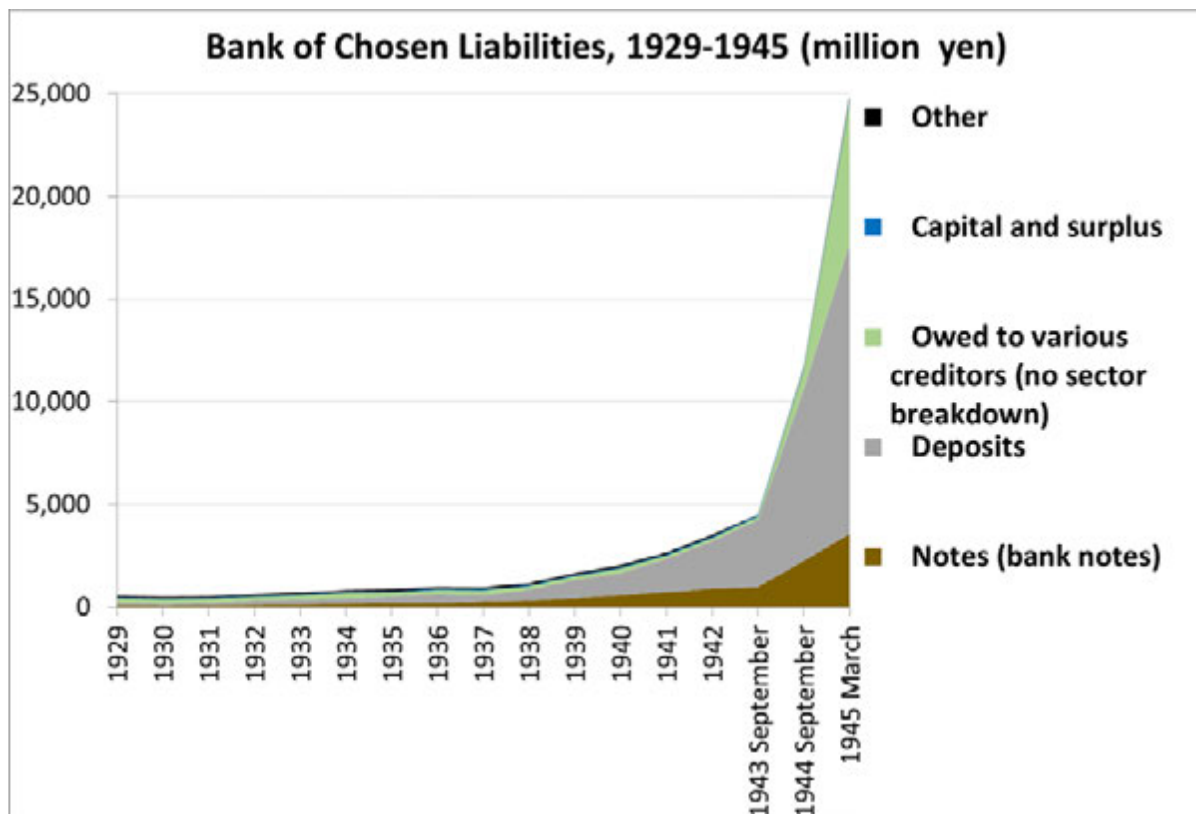
The period 1929 to 1945, from the start of the Great Depression in United States to the end of Japanese colonization in Korea, is termed the “annihilation rule” period. In the late 1920s, to overcome the effects of Great Depression that hit the entire world, Japan aggressively expanded its empire. Starting with the invasion to the Manchuria in September 1931, Japan continued on to the Sino-Japanese War in July 1937, the invasion of French Indochina in September 1940, and Pacific component of World War II in December 1941.²⁸ Japan severely suppressed Korea during the last period of its colonization, focusing on the annihilation of Korean identity, forcing Koreans to change their names to Japanese names, and conscripting them into the war effort. On August 15, 1945, Korea was officially liberated from Japan, ending Japanese control over the Bank of Chosen.

Bank of Chosen Asset Composition from 1929-1945 (previous page)

During the annihilation rule period, the most noticeable trait is the tremendous increase in the Bank of Chosen’s balance sheet. It expanded every year except for 1929 and 1930 (during the worldwide depression), and 1937. The latter year saw a depression in the United States and some other countries, and retreat of Bank of Chosen from Manchuria, where Japan had established other institutions through which to shape local financial policy.

Such a huge increase of the balance sheet, roughly 50-fold over the period, would have been impossible under the gold standard. In 1917, Japan had abandoned the gold standard, like almost all of the other countries participating in World War I with the significant exception of the United States. The yen operated under what we would now call an officially managed float but a de facto peg to or at least a band with the pound sterling. Japan returned to the gold standard in January 1930, an inopportune time because the gold standard was collapsing under the pressure of the Great Depression. It again abandoned the gold standard in December 1931, about three months after Britain, and after a period of managed floating pegged to the pound sterling from 1933 until soon after World War II began in Europe, then switched to the U.S. dollar as the anchor until beginning war against the United States. Exchange controls existed, so it was not necessarily possible to conduct foreign exchange transactions at the official exchange rate. Korea and Taiwan, as Japanese colonies were subject to the same policies. Japanese conquests elsewhere in Asia from 1937 were subject to strict exchange controls separate from those applying to Japan, Korea, and Taiwan. The Japanese established or took over local currency issuers and kept each territory’s currency separate. Following the Japanese attacks in December 1941 that began World War II in the Pacific, there was no more exchange rate anchor, enabling enormous increases in the monetary base in Japan, Korea, Taiwan, and Japan’s more recent conquests.

²⁸ Lee 2016:48.



As in the previous periods, most of the Bank of Chosen's assets were owed by the nonfinancial private sector. It is surprising in light of the practice of central banks elsewhere that government securities and loans to the government were not much larger during the war. A possible explanation is that the simplified balance sheet shown in the graphs misstates the wartime division of assets. In 1945 the largest single item on the asset side of balance sheet shown in *Chosen Ginkō shi* is overdrafts; they account for more than one-third of assets. Whereas previously it is probable that overdrafts were mainly or entirely to private sector clients, in 1945 most of the overdraft may have been to the government. It would take archival research to know what was the case.

During World War II, the bank's holdings of foreign assets and securities shrank as a share of total assets, while various kinds of loans rose as a share of total assets. The implication is that the war made the bank's portfolio less liquid because a lower share of assets was readily tradable in secondary markets.

Bank of Chosen Liability Composition from 1929-1945 (previous page)

On the liability side, the Bank of Chosen saw a nearly continuous growth in the share of deposits in total liabilities. This implies that the Korean financial system was becoming more advanced and that fewer large payments were made hand to hand with banknotes. Bank notes did however increase greatly in nominal terms during World War II. The ceiling on the bank's note issue was removed in November 1941.²⁹ Another indication of Korea's financial development is that assets or liabilities of the Bank of Chosen as a percentage of GDP rose from about 32 percent in 1928 to nearly 45 percent in 1940, the last year of GDP calculations.³⁰

Retreat from Manchuria and Beginning of the Financing for Japan's Wars

At the end of 1936, the failure of currency reform in Manchuria by the Bank of Chosen and the establishment of the puppet state of Manchukuo in 1932 led the bank to withdraw from Manchuria. It closed its branches in favor of the Japanese-influenced Central Bank of Manchukuo. Manchukuo decided to use the silver standard used in China instead of the gold standard that Japan and Chosen had adopted.³¹

In this period, Japan was preparing for wars to advance into the heart of China. The legal ceiling for the fiduciary note issue of the Bank of Chosen was increased from its previous level of 50 million yen to 100 million yen in 1937, the year Japan started the Sino-Japanese War. In 1939, it was increased to 160 million yen.³² This helps explain why the size of Bank of Chosen did not shrink much in 1937 even with the retreat from Manchuria, and why there

²⁹ Condelario 1950: 63.

³⁰ GDP figures are from Naksungdae Institute of Economic Research 2011: Table 1-1

³¹ Cho 2011: 181.

³² Condelario 1950: 63.

was a rapid increase in the size of the balance sheet in 1938 and 1939. In the war with China, bankers of the Bank of Chosen followed Japanese troops into the war and worked to finance the war.³³ It opened branches in northern China to facilitate financing of the Japanese military, offsetting the closure of its branches in Manchuria.

Full Balance Sheet of the Bank of Chosen, September 1945 (amounts in yen)

Assets		Liabilities	
Capital receivable	30,000,000	Capital	80,000,000
Loans on bills	5,897,069,880	Apropriated retained earning	29,700,000
Loans with written instruments	3,641,998,645	Dividends payable	123,550
Overdraft	9,145,994,836	Bank notes	3,574,418,246
Overdraft in foreign currency	4,106,725	Notes payable	904,997
Notes discounted	388,682,940	Deposits	14,124,305,728
Documentary bills	56,074,429	Borrowings from government	28,067,000
Call loans	119,000,000	Borrowing	6,263,889,142
Exchange bills bought	65,984,886	Rediscount notes	261,369,797
due from financial institutions	1,399,012,192	Borrowings from other branches	85,005,864
Loans of branches	17,336,437	Discretionary loans	47,202,577
Discretionary loans	47,202,577	Suspense receipts	228,872,530
Provisional payment	21,172,102	Unpaid remittance bills	132,944,899
Securities	3,399,989,272	Acceptance and guarantee	23,706,474
Acceptance and guarantee	23,706,474	Surplus profit brought forward	2,619,601
Land, buildings, equipment	21,731,207	Net income	8,993,085
Gold and silver bullion	4,514,674		
Cash	608,546,192		
Error	-7	Error	15
Total	24,892,123,475	Total	24,892,123,475

When Korea was liberated from Japan on August 15, 1945, the colonialist financial system tying subject countries to Japan broke, but the Bank of Chosen and the Chosen Industrial Bank continued to function since they were two of the biggest financial institutions in the country. Soon, the United States took over from Japan the southern part of Korea below the 38th parallel and the Soviet Union took over the part above the 38th parallel. The Bank of Chosen continued to function as the central bank. Since the Bank of Chosen was most prepared to become the central bank of Korea, despite many controversies whether a remainder of Japanese imperialism should be the central bank, the Bank of Chosen started its function as the central bank of South Korea. The Bank of Chosen was advised to change its name since using the same name might cause claims from the creditors of the original Bank of Chosen. Also, re-establishment would bring a new balance sheet, meaning a new start.³⁴ Thus, Bank of Chosen changed its name into the Bank of Korea and is still functioning as the central bank of the South Korea. In the case of the North Korea, as Soviet Union took control above the 38th parallel, a new occupation currency to replace the Bank of

³³ Cho 2011:183.

³⁴ Kahm 2012:248.

Chosen notes was issued, and people who were pro-Japanese, wealthy and anti-communist were ostracized from the country.³⁵ On January 15, 1946, the Soviet military authorities established the Central Bank of the Democratic People's Republic of Korea for the part of the country that they occupied.³⁶

The Bank of Chosen after Japanese Rule, 1945-1950³⁷

The American occupation authorities found that the Japanese government, Japanese companies, and individual Japanese persons owned 85 percent of the Bank of Chosen. The occupation authorities assumed control of these shares in trust for a future Korean government. They also appointed an American-trained banker to head the Bank of Chosen and removed its Japanese managers. To help the banking system, whose cash had been nearly depleted by runs by depositors after Japan's surrender to the Allies, the occupation authorities ordered the Bank of Chosen to make an emergency loan of more than 1.1 billion yen to other banks.³⁸

Under American occupation the Bank of Chosen became a vehicle for the American aim of reviving South Korea's economy such that it would support an independent South Korean state. The Republic of Korea began its existence as an independent country in August 1948. The currency had not yet stabilized, though. The government ran substantial deficits that the bank financed. Its balance sheet expanded accordingly. Note circulation, for instance, quintupled from 1945 to 1948.

Because the Bank of Chosen's association with Japanese colonialism and its lack of success in postwar currency stabilization, the Korean government considered it advisable to replace the Bank of Chosen. The Bank of Korea assumed the old bank's central banking functions, while its commercial banking functions were spun off as Sangho Bank. The Bank of Korea opened on June 12, 1950. Currency stabilization would have to wait a number of years though, because the North Korean invasion that started the Korean War occurred less than two weeks later, on June 25.

Some balance sheet information from the postwar period can be found in the Bank of Chosen's *Annual Economic Review of Korea* and its *Monthly Statistical Review*. The accompanying spreadsheet workbook reproduces certain data from the *Monthly Statistical Review*. For the postwar period, this paper does not offer an analysis comparable to those for the previous periods because I was only able to find select balance sheet items, not full balance sheets.

³⁵ Kahm 2012:241.

³⁶ Bank of Korea, Planning Division [2016]: 79.

³⁷ This section is mainly from Condelario 1950: 119-133, 207.

³⁸ Condelario 1950: 123 says 1.1 million yen, which must be a typographical error.

Conclusion

As has been mentioned, in 1911, the first year that GDP estimates are available for the Korean economy, the Bank of Chosen's assets were equal to about 9 percent of GDP. In 1940, the last year of pre-World War II GDP estimates, the bank's assets were equal to almost 45 percent of GDP. It is possible that the ratio rose even higher during World War II. Obviously, then, the Bank of Chosen was a very important tool of Japanese financial control over the Korean economy.

The Bank of Chosen had diverse roles. It functioned as a commercial bank and central bank in Korea. For a time it did likewise in Manchuria. It followed Japanese troops into Siberia and China and provided them with access to banking facilities. Its shifting functions and combination of political economic objectives mean that assessing it as a success or failure would be a complex task, beyond the scope of a short paper such as this. Such an assessment, however, would need to take into account the evolution of the balance sheet as an important measure of the bank's performance.

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