

Colonial Banking Turbulence and Wartime Financial Control:

The Korean Peninsula's Financial Transformation from the 1920s to the Mid-20th Century

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Abstract

The Korean Peninsula witnessed a significant financial transition during the early twentieth century, particularly from late 1919 to 1920, when it entered a period of unusually high interest rates. This phase coincided with pervasive deflation that persisted throughout the 1920s, creating a challenging economic environment. Despite a rapid increase in the number of banking institutions, ordinary banks across the peninsula experienced severe financial crises. These disruptions were fundamentally rooted in the colonial economic structure imposed by Japanese rule, which systematically distorted Korea's indigenous financial ecology. Unlike the relatively stable agricultural finance model observed in colonial Taiwan, Korea's financial system was uniquely exposed to external shocks due to its designated role as a continental bridge to Manchuria. The financial instability of the 1920s, marked by episodes of speculative frenzies and banking panics, established conditions that later facilitated the implementation of Japan's wartime controlled financial system. This study draws on financial statements from the Bank of Chosun, historical banking records, and comparative policy analysis to argue that the specific geopolitical burden placed on Korean finance intensified its vulnerability. This instability facilitated the imposition of Japan's wartime controlled financial system. While this state-directed framework later facilitated rapid industrialization, it also embedded deep structural imbalances—specifically high corporate leverage and moral hazard—that would eventually re-emerge with devastating consequences during the 1997 Asian Financial Crisis.

1. Introduction: The Paradox of Colonial Finance

The economic history of the Korean Peninsula during the first half of the twentieth century occupies a contentious space in the historiography of East Asia. On one side stand proponents of the “exploitation thesis,” emphasizing land confiscation, unequal trade, and fiscal extraction under Japanese rule. On the other stand advocates of the “colonial modernization” school, pointing to the rise of railways, modern firms, and industrial output. Both approaches have generated substantial empirical work, but both tend to treat “finance” as background infrastructure rather than as a central historical actor.

Yet, as works by Carter Eckert, Dennis McNamara, Jung-En Woo, Bruce Cumings and others have shown, modern Korean capitalism cannot be understood without analyzing the financial structures through which capital was mobilized and allocated (Eckert 1991; McNamara 1990; Woo 1991; Cumings 1984). The period from the post-World War I recession of 1919 through the Pacific War marks a crucial transformation in those structures: from a relatively plural and unstable banking landscape to an increasingly concentrated and state-directed system.

The roots of this transformation stretch back to the late nineteenth century. As Kahm (2012) points out, the establishment of the first Korean branch of Daiichi Bank in Pusan in 1878 marked the beginning of modern banking on the Korean Peninsula. Daiichi's branch supported the activities of Japanese merchants in Pusan and symbolized a new phase of economic entanglement. Subsequent branches in Wonsan (1880) and Incheon (1883) functioned as gold-collection points and customs-tariff reception centers, integrating Korea into Japan's commercial and monetary networks. Yet Daiichi's priorities were not identical with those of the Japanese state. The bank often preferred to keep rival Japanese banks out of Korea in order to preserve its quasi-monopoly position, even when this stance ran against broader projects of Japanese economic and political penetration (Kahm 2012). From the outset, therefore, the development of modern banking in Korea reflected a tension between imperial strategy and institutional self-interest.

This paper focuses on a central paradox of the 1920s and 1930s. On the surface, banking in colonial Korea was a success story. Deposits expanded, new branches opened, and banks like the Bank of Chosun (Bank of Chosen, hereafter BOC) proudly published jubilee volumes charting their growth. Beneath the surface, however, this expansion was built on a fragile foundation: imported deflation, discriminatory interest rate regimes, volatile deposits, and an asset structure heavily concentrated in the non-financial private sector—agriculture, mining, trade, and small industry—across some of the most shock-prone regions of the Japanese empire.

The argument unfolds in three steps. First, Section 2 analyzes the policy architecture of instability: the “Tokyo constraint,” the Korean yen's subordination to the Japanese gold-standard project, and the interest-rate discrimination that pushed Korean banks into high-risk lending (Kimura 1989; Kahm 2012). Second, Section 3 turns to the balance sheet itself. It examines the paradox of deposit growth and the double-edged

nature of having the largest share of assets in the non-financial private sector, then links these internal vulnerabilities to the external, geopolitical role of Korea as a financial bridge to Manchuria (Park 2017). Third, Section 4 traces how these instabilities provided the rationale for wartime financial control, and how the institutional solutions of the 1930s—over-loaning, policy loans, and bank-industry-state nexuses—created a path dependence that contributed not only to post-war growth but also to the structural fragility exposed in 1997 (Woo 1991; Kohli 2004).

The goal is not to rehearse a simple narrative of “colonial origins of modernization” or “pure exploitation,” but to show how specific financial mechanisms created both growth and crisis tendencies that stretched from the 1920s to the late twentieth century.

2. The Architecture of Instability: Structural Distortion and Monetary Subordination

2.1 Post-War Contraction and the “Tokyo Constraint”

The First World War produced a short-lived export boom for Japanese industry and commerce. Colonial Korea, integrated into the Japanese economic sphere, participated in this upswing through rising prices for rice, ginseng, and other commodities, and through growing demand for shipping and trade services. The boom, however, was built on loose credit and wartime distortions. When the war ended in 1918–1919, international demand weakened, prices fell, and speculative positions in commodities and land began to unwind.

In this context, the Japanese Ministry of Finance and the Bank of Japan charted a policy of monetary and fiscal retrenchment. Their key objective was to restore the pre-war gold parity of the yen, which required deflating the post-war price level and tightening credit. This decision was rational from the standpoint of Japan’s external position, but it was disastrous for the colonial periphery (Cumings 1984; Kimura 1989).

Korea did not have an independent currency or central bank in the modern sense. The BOC, founded in 1909 and reorganized after annexation, issued banknotes denominated in Korean yen that were legally tied to the Japanese yen and backed by Bank of Japan reserves and Japanese government securities (Bank of Chosen). This arrangement—presented as “separate but equal” in official discourse—effectively subordinated Korean monetary policy to Tokyo. When the Bank of Japan raised its discount rate or tightened the availability of money, the cost of funds for the BOC immediately increased.

Kahm's study of colonial finance emphasizes this dependency: the BOC's ability to expand its note issue and its lending in Korea and Manchuria was fundamentally constrained by its access to funding from Japan, especially during crises such as the post-WWI crash, the 1923 Kantō earthquake, and the 1927 Shōwa financial panic (Kahm 2012). After the Kantō earthquake in particular, the BOC sought emergency assistance from both the Japanese government and the Bank of Japan. This dependence provided the Ministry of Finance with an opportunity to exercise more direct control over the bank's operations and policies. At the same time, Chinese banks in Manchuria grew increasingly dissatisfied with the central role of the BOC and its currency in regional finance, resenting the way BOC notes and credit practices dominated local markets (Kahm 2012). Thus, the BOC was squeezed from both directions: more tightly subordinated to Tokyo while increasingly contested in Manchurian financial circuits.

The upshot was that the BOC operated with a permanent "Tokyo constraint," importing deflation into an economy that, by its level of development, actually needed cheap credit and liquidity.

2.2 Interest-Rate Discrimination and Adverse Selection

Within this macro-framework, the Korean financial market exhibited a pronounced duality.

On one side were branches of large Japanese banks and specialized policy institutions (the BOC, the Industrial Bank of Chosen, and others). These had privileged access to relatively cheap funding in Japan and to rediscount facilities at the BOC itself. On the other side were indigenous Korean banks, savings associations, and small local institutions that largely depended on local deposits and informal money markets (McNamara 1990).

To attract deposits in a capital-scarce environment, these Korean banks often had to offer interest rates significantly higher than those available at Japanese institutions—7 to 10 percent was not uncommon during the 1920s, compared to 4 to 5 percent in the metropolitan system. McNamara and others have shown how this structural disadvantage forced Korean banks into a chronic "funding squeeze," making their survival contingent on maintaining high lending rates (McNamara 1990; Eckert 1991).

The result was **adverse selection** in the loan portfolio. Firms engaged in productive investment with thin profit margins could not bear interest costs above 15–20 percent. Borrowers willing to pay such rates tended to be engaged in speculative activities—land speculation, hoarding and release of rice stocks, or highly leveraged trade in soybeans and other commodities. As a consequence, the very structure of the interest-rate regime nudged indigenous banks towards volatile, pro-cyclical lending.

The *Economic History of Chosen* indirectly reflects this pattern: alongside celebratory tables of growth, it quietly records waves of small-bank failures during deflationary episodes (Bank of Chosen).

2.3 The Logic of Speculation and the Collateral Trap

The high-rate environment interacted with the colonial legal and institutional framework in ways that further amplified risk.

Because Korean firms and landlords often lacked standardized financial reporting, banks relied heavily on **collateral**, especially land and buildings. The wartime and immediate post-war rice boom had driven land prices sharply upward, making land-backed lending appear safe. Rural and semi-urban banks expanded aggressively into mortgage lending, sometimes financing land purchases more than once as prices climbed (McNamara 1990).

When deflation set in and rice prices fell, land values stagnated or collapsed in many regions. Mortgaged plots could no longer be sold at book value; banks' balance sheets were suddenly filled with non-performing, illiquid assets. Foreclosure did not solve the problem because there were few solvent buyers. The same logic applied to commodity finance: loans secured by rice or soybean inventories were only as good as the market price of those goods.

This **collateral trap**—where both borrowers and banks were jointly exposed to downward price shocks—meant that the banking crises of the 1920s were not mere liquidity episodes. They involved genuine solvency problems. Banks were not simply short of cash; their asset side was deteriorating structurally. In such an environment, pressures for a more controlled financial system began to mount among colonial administrators, who saw “free” credit allocation as dangerously unstable (Eckert 1991; Kimura 1989).

3. The Anatomy of Systemic Vulnerability: Balance Sheet Risks and Geopolitical Exposure

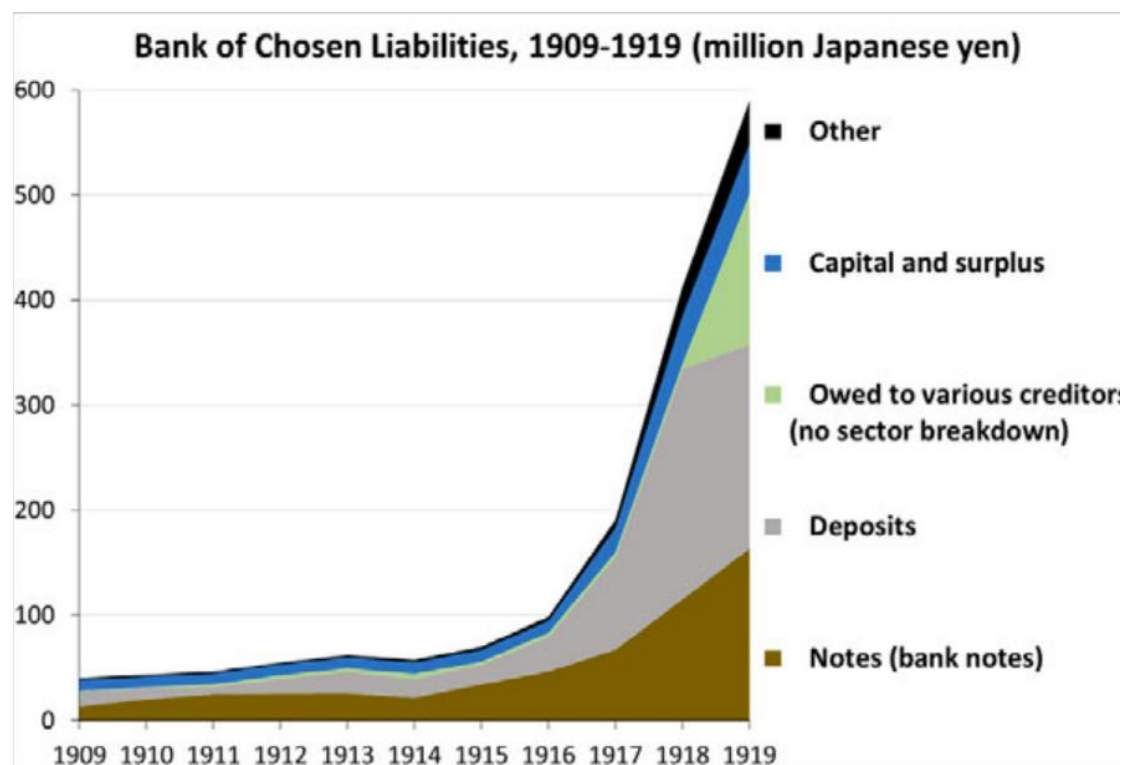
If Section 2 describes the policy environment and incentive structure, Section 3 turns to the **balance sheet**—to the concrete composition of banking liabilities and assets that translated those incentives into systemic fragility. Jieun Park's balance-sheet analysis of the Bank of Chosen, combined with the BOC's own reports, makes it possible to quantify some of these patterns, highlighting both the growth of deposits and the heavy concentration of loans in the non-financial private sector (Bank of Chosen; Park 2017).

3.1 The Paradox of Deposit Growth: Liquidity as Vulnerability

Between roughly 1920 and 1940, aggregate deposits in the Korean banking system—and especially at the BOC—grew substantially. For contemporary observers, this was proof of success: the BOC’s commemorative volumes proudly charted the upward curves of “Deposits,” “Bankers’ Deposits,” and “Current Accounts,” interpreting them as signs of public confidence and financial deepening (Bank of Chosen).

From the perspective of the banks themselves, deposit growth had several **positive** implications. First, a rising deposit base meant access to more of society’s idle funds, allowing banks to expand lending and investment. For an institution like the BOC, which was tasked with both commercial banking and developmental roles, this provided the raw material for ambitious credit expansion domestically and into Manchuria (Kahm 2012).

Second, abundant deposits supported smoother payments, clearing, and settlement operations. In a context of limited capital markets, deposits were the primary lubricant of day-to-day financial transactions. Third, for a colonial bank enmeshed in imperial competition, deposits represented not just money but *power*. The larger the BOC’s liabilities and corresponding assets, the greater its weight in imperial financial strategies (Cumings 1984).



Source: Park, 2017

Yet the same phenomenon carried serious **risks**—especially once we consider the institutional framework in which these deposits were held. Deposit growth often encouraged **over-lending**. In the absence of a deep market for government securities or other low-risk assets, the easiest way to employ new funds was to expand loans—frequently into sectors already exhibiting speculative dynamics, such as land or commodity trade. Banks under pressure to maintain earnings could not simply hold excess reserves; they had to “put money to work.” This pro-cyclical mechanism meant that during booms, rising deposits amplified credit creation and asset inflation.

Moreover, the Korean system operated on a **fractional reserve** basis ultimately backed by Japanese yen reserves and Japanese government bonds. The BOC’s note issue and reserve position depended on its own assets and on lines of credit from the Bank of Japan. In this setting, rapid deposit growth could rest on a fragile reserve base. When shocks hit—such as the 1923 Kantō earthquake or the 1927 Shōwa financial crisis—confidence in the system could easily flip, leading to deposit withdrawals that far exceeded immediately available liquid assets (Kahm 2012; Kimura 1989).

Finally, deposit growth was highly **pro-cyclical**. In prosperous periods, funds flowed into banks, reinforcing optimism and encouraging risk-taking. In downturns, the same depositors—merchants needing cash, landlords facing falling rents, firms confronted with declining orders—attempted to withdraw funds, compressing banks’ liquidity precisely when their loan portfolios were deteriorating (Park 2017).

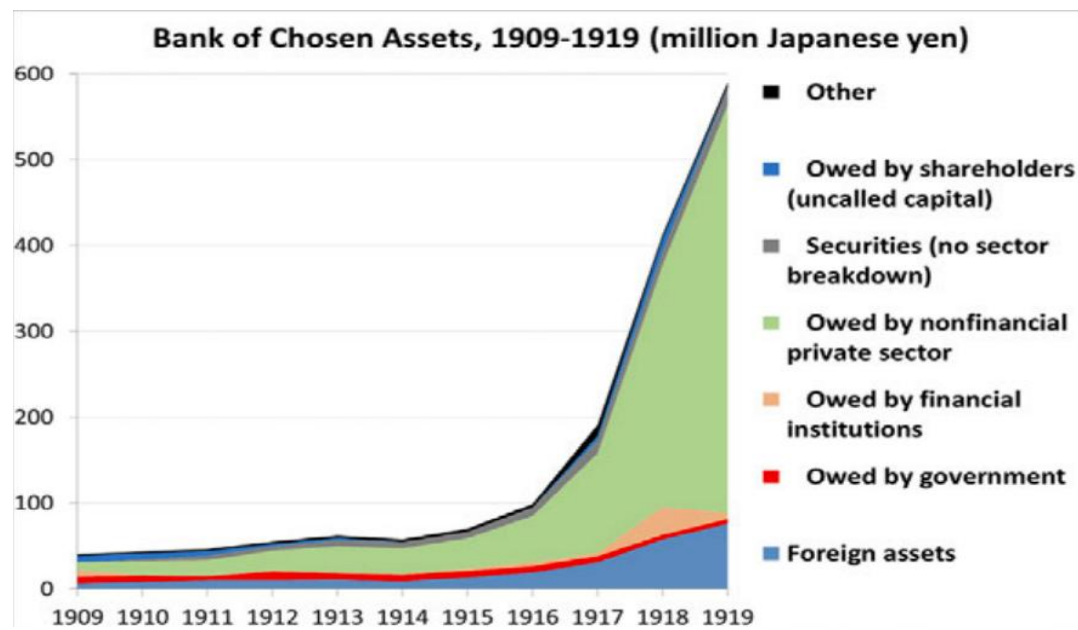
For a typical commercial bank, this cycle was dangerous. For the BOC, which combined the roles of central bank and commercial bank, it was existentially contradictory. As a commercial institution, the BOC had every incentive to harness deposit growth for expansion. As a quasi-central bank, it ought to have maintained larger reserves and safer assets to backstop the system. The historical record shows that it did the former far more enthusiastically than the latter, forcing the colonial state to intervene repeatedly when crises erupted (Kahm 2012).

Deposit growth, in short, was not simply “good” or “bad”; it was *ambiguous*. It strengthened the system in normal times but made it acutely vulnerable in crisis—an instance of liquidity turning into leverage, and leverage into fragility.

3.2 Asset Concentration in the Non-Financial Private Sector: A Double-Edged Sword

If the liability side was dominated by deposits, the asset side was dominated by claims on the **non-financial private sector**—that is, on real enterprises and individuals rather than on governments or financial institutions. Park’s balance-sheet study of the BOC confirms that loans to agriculture, trade, and industry formed the bulk of its asset

portfolio in the interwar years (Park 2017). This structure was a double-edged sword.



Source: Park, 2017

From one perspective, this pattern looked healthy and even progressive. Banks—both Japanese and Korean—channeled funds into agriculture (especially rice and soybeans), mining, transport, and light industry. Loans supported the purchase of fertilizer, agricultural implements, processing equipment, and the working-capital needs of exporters and importers. This integration of banking with commodity and industrial circuits was central to colonial economic growth (Eckert 1991; McNamara 1990).

Loans to trading firms and industrial enterprises typically carried higher spreads than interbank placements or holdings of government bonds. They also generated ancillary business such as the discounting of bills of exchange, documentary credits, and foreign-exchange services. In periods of trade expansion—during and immediately after the First World War, and again in certain phases of the 1930s—this asset profile yielded substantial profits (Bank of Chosen).

For an institution like the BOC, lending to the non-financial private sector, especially in agriculture and trade, was part of its mission to “develop” the colony. Financing export flows from Korea and Manchuria helped remedy trade imbalances and cement the region’s role as a supplier of raw materials and semi-processed goods to the Japanese metropole (Kahm 2012).

At the same time, this structure embedded several layers of vulnerability. The non-financial private sector in colonial Korea and Manchuria was highly exposed to natural disasters, international price swings, and policy shocks. Crop failures, earthquakes, and collapses in commodity prices could quickly wipe out borrowers’ ability to service

debts. Because bank assets were concentrated in these sectors, such shocks translated directly into non-performing loans and capital erosion (Kimura 1989; Cumings 1984).

In many advanced financial systems, banks hold portions of their portfolio in government bonds or highly liquid securities that can be sold or pledged in times of stress. In colonial Korea, these markets were thin. Government debt instruments existed but were limited and often held by metropolitan institutions. Banks like the BOC, heavily committed to loans in the private sector, had relatively few assets that could be quickly monetized during a run. The absence of a substantial “buffer” of safe, liquid assets made the system far more brittle (Park 2017).

The BOC operated under a proportional reserve system in which its ability to issue notes and maintain convertibility rested on the quality and liquidity of its assets. When those assets consisted largely of illiquid loans to farmers, traders, and small industrialists, any large-scale deterioration in the real economy threatened the bank’s credibility. As borrowers defaulted, the underlying collateral—land, buildings, inventories—could not be turned into cash fast enough to meet depositors’ demands (Kahm 2012).

For the BOC in particular, the concentration of assets in the non-financial private sector sharpened a fundamental institutional contradiction. As a **commercial bank**, it had strong incentives to expand lending to enterprises and individuals, especially in high-yield colonial and frontier markets. As a **central bank in practice**, it bore responsibility for systemic stability and ideally should have maintained substantial holdings of safe, liquid assets to act as a lender of last resort. In reality, its asset structure left it ill-equipped for the latter role. When crises struck—most dramatically in the mid-1920s and during the 1927 Shōwa financial crisis—the BOC itself was so entangled in problematic loans that it required government support and special arrangements from the Bank of Japan (Kahm 2012).

In sum, an asset structure heavily weighted toward the non-financial private sector enabled banks to participate in and profit from colonial development in the short and medium term, but at the cost of long-run structural fragility.

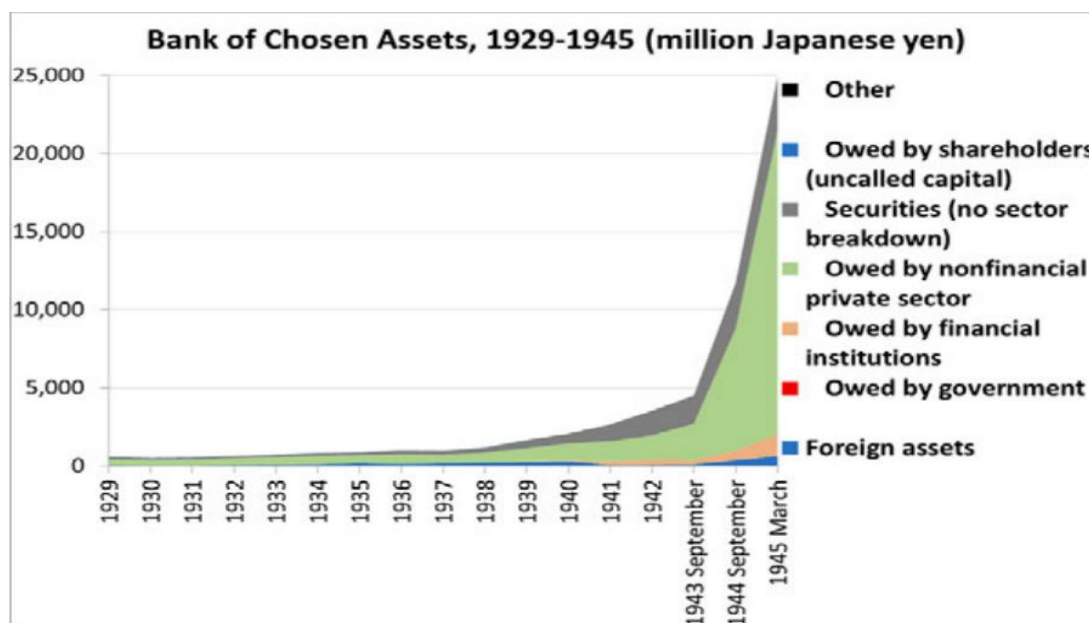
3.3 Geopolitics as Risk Amplifier: Korea, Taiwan, and Manchuria

These balance-sheet vulnerabilities—volatile deposits and concentrated real-sector lending—did not occur in a vacuum. Their implications varied across imperial space.

In Taiwan, the Bank of Taiwan directed a significant share of its portfolio toward the sugar industry, which operated under quasi-monopolistic conditions with long-term contracts and strong state backing. This created a relatively stable revenue stream and

partly insulated the banking sector from short-term shocks, even during the global depression (Duus 1995; Cumings 1984). In Korea, by contrast, the BOC was thrust into a far riskier role as financial bridge to **Manchuria**. It not only financed Korean agriculture and trade but also extended large credits to enterprises in Manchuria and North China: soybean traders, timber concessions, rail-linked industrial zones, and related activities (Kahm 2012). The BOC's expansion into Manchuria was meant to solve structural trade imbalances and create new profit centers, but in practice it exposed the bank to an even more volatile economic environment.

After the early 1930s, declines in world commodity prices and, crucially, the intensification of political and military instability in Manchuria translated into a trans-regional deterioration of the BOC's asset quality. Under these conditions, protecting reserves and meeting obligations often required the BOC to tighten credit on the peninsula, withdrawing liquidity from smaller banks and enterprises precisely when deflationary pressure was greatest. In this sense, Korea's assigned geopolitical role—**bridge rather than island**—did not merely create risk; it **amplified it over the 1930s**, binding the Korean banking system to shocks emanating from both Tokyo and the Manchurian frontier. Korea thus functioned as a semi-periphery within a broader core-periphery structure, importing instability from both directions (Cumings 1984; Kahm 2012).



Source: Park, 2017

4. From Chaos to Control: Wartime Financial Transformation and Its Legacies

The chronic instability of the 1920s and early 1930s—bank runs, credit contractions, and repeated reliance on emergency support—gradually convinced colonial policymakers that *laissez-faire* banking could not be trusted to support imperial ambitions. The solution, from their perspective, was to tighten control over the financial system, rationalize its structure, and align its operations explicitly with state priorities (McNamara 1990; Eckert 1991).

4.1 The 1927 Banking Act: Rationalization as Control

The **Banking Act of 1927** was formally justified as depositor protection and prudential reform. In practice, it functioned as a mechanism of consolidation and control.

It introduced stricter **capital adequacy requirements**, which many small Korean-owned banks could not meet without merging or recapitalizing under Japanese influence. It strengthened **supervisory powers**, giving the colonial government greater authority to inspect banks, demand information, and intervene in management. It encouraged or forced **mergers**, reducing the number of independent institutions and increasing the relative weight of a handful of large banks, including branches of metropolitan institutions and semi-official entities like the BOC (McNamara 1990).

As McNamara shows, this process reduced the space for independent Korean capital to operate in finance, while creating larger, more easily governed banking entities that could be integrated into colonial planning (McNamara 1990). What appeared as “rationalization” from a regulatory perspective can also be read as the political elimination of competing centers of financial power.

4.2 The Wartime System: Policy Loans and Over-Loaning

The invasion of Manchuria in 1931 and the escalation into full-scale war against China in 1937 transformed the logic of financial policy. The Japanese empire entered a phase of **total war mobilization**, in which the distinction between civilian and military production blurred and the financial system was explicitly reorganized around strategic priorities (Cumings 1984).

Key instruments included the **Temporary Funds Adjustment Law**, which tightened controls over the volume and direction of credit, and a proliferation of **policy loans** (*seisaku kinyū*), in which the state designated certain sectors—heavy and chemical industries, munitions, transport—as priority borrowers, instructing banks to supply credit to them on favorable terms. Increasing **direct guidance** from ministries and planning agencies to banks effectively turned commercial lending into an arm of industrial policy (Woo 1991).

In this context, the BOC fully embraced **over-loaning**. It extended credit to industrial firms far beyond what would have been warranted by their deposit base or conventional risk assessments, secure in the expectation that losses would be socialized through state support and monetary expansion. Woo's analysis of post-war Korean finance identifies this period as the origin of a distinctive "state-dominated, bank-centered" system of capital allocation (Woo 1991).

From one angle, the wartime financial regime can be seen as a functional response to the failures of the 1920s: instead of letting competitive banks over-lend to speculative sectors, the state sought to steer over-loaning toward "productive" heavy industry. But in doing so, it normalized high leverage and institutionalized the expectation that large borrowers would not be allowed to fail.

4.3 Path Dependence and the Long Shadow to 1997

The end of Japanese rule in 1945 did not erase these institutional patterns. As Kahm (2012) emphasizes, the basic institutional structure of the Bank of Chosen persisted through the American occupation period and into the early years of the Syngman Rhee administration. The bank itself did not undergo fundamental organizational change until the passage of the Bank of Korea Law in 1950. Even then, there was significant continuity: a substantial number of colonial-era personnel transitioned directly into the new Bank of Korea, carrying with them practices, habits of thought, and policy preferences formed under the earlier regime (Kahm 2012).

American occupation authorities debated how independent the new central bank should be from the finance ministry, but they inherited a system in which state guidance over credit had been the norm for decades. In the 1960s and 1970s, under Park Chung-hee and his successors, South Korea adopted an explicit strategy of **state-led industrialization**. Commercial banks were often nationalized or tightly controlled; they channeled large volumes of policy loans into selected *chaebols* in steel, shipbuilding, automobiles, and electronics (Woo 1991; Kohli 2004). Woo argues that this financial repression and directed credit were crucial to the "Miracle on the Han River," enabling rapid structural transformation under conditions of external constraint.

Yet the **risks** embedded in this model were the direct heirs of colonial-era practices. Institutionalized moral hazard encouraged large firms to assume that aggressive borrowing carried limited downside risk because the state and central bank had repeatedly demonstrated a willingness to rescue "systemic" institutions. Corporate debt-to-equity ratios remained very high by international standards. Banks, used to operating under state direction, did not develop strong independent credit-risk assessment capabilities; their primary concern was meeting plan targets (Woo 1991;

Kohli 2004).

When South Korea liberalized its financial markets and opened further to global capital in the late 1980s and 1990s, these inherited structures collided with volatile international flows. Banks borrowed heavily in foreign currencies, and *chaebols* relied on short-term external funding to roll over existing debts. When the Asian Financial Crisis hit in 1997, the combination of high leverage, short maturities, and implicit guarantees proved unsustainable.

From this perspective, the 1997 crisis was not a sudden departure from an otherwise stable trajectory but the **unraveling of a long-standing pattern** of over-leveraged, state-conditioned finance whose roots go back to the colonial period: to the BOC's dependence on Tokyo, to its volatile deposit-driven expansion, to its concentrated exposures in high-risk private sectors in Korea and Manchuria, and to the wartime normalization of over-lending as a tool of policy (Cumings 1984; Woo 1991; Kohli 2004; Kahm 2012).

5. Conclusion

The financial history of colonial Korea between 1920 and the mid-twentieth century was marked by what might be called **organized instability**. On the one hand, institutions like the Bank of Chosun spearheaded the introduction of modern banking, mobilized deposits, and financed trade, agriculture, and nascent industry. On the other, the very mechanisms that produced short-term growth—imported deflation, discriminatory interest-rate structures, volatile deposit-based expansion, and concentrated lending to vulnerable sectors—created deep structural fragilities (Bank of Chosen 1920–21; McNamara 1990; Park 2018).

This paper has argued that the **policy architecture** of the colonial financial system subordinated Korea to Tokyo's monetary priorities, forcing a developing economy to import deflation and high real interest rates designed for a very different metropolitan context (Kimura 1989; Kahm 2012). The **balance-sheet structure** of key banks, especially the BOC, turned apparent strengths into vulnerabilities. Deposit growth meant larger funding bases but also larger run risks. A portfolio dominated by non-financial private-sector loans meant close integration with the real economy but also exposure to every shock that hit that economy (Park 2018).

The **geopolitical role** assigned to Korea—as a financial bridge to Manchuria—further amplified these risks, making Korean banks conduits for trans-regional contagion (Cumings 1984; Kahm 2012; Duus 1995). The **wartime shift to controlled finance** did not simply impose a new model from above; it emerged from and sought to manage the contradictions of the existing system. Over-lending and policy loans were attempts to

harness the same mechanisms that had fueled speculative booms, redirecting them toward strategic heavy industry (Woo 1991).

The **post-colonial trajectory** of South Korean finance—its successes and its crises—cannot be disentangled from these legacies. The 1997 Asian Financial Crisis, in particular, exposed the long shadow of earlier practices: high leverage, reliance on state guidance, and underdeveloped risk management (Woo 1991; Kohli 2004). Seen in this light, the “Miracle on the Han River” and the 1997 crisis are two sides of the same historical coin. The institutional arrangements that enabled rapid industrialization also embedded structural weaknesses whose origins lie not only in post-war policy choices but in the colonial era’s turbulent experiment with modern finance.

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