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The transformation of the Chosŏn economy in the Open Port Period, 1876–1910

Owen Miller

Introduction: economic problems of nineteenth-century Chosŏn

Korea’s relative isolation from the emerging world system during the latter centuries of the Chosŏn Dynasty (1392–1910)1 was a double-edged sword. It protected Chosŏn from outside interference and helped the dynasty to last an exceptionally long time. But when the modern capitalist world did arrive, it was a sudden and shocking experience. To make matters worse, by this time Korea’s island neighbour had already set out decisively on the path of modernisation and it was Japan who would eventually come to dominate the Chosŏn economy and then annex the country in 1910.

The opening of Korea’s ports, beginning with the Kanghwa Treaty of 1876, marked a major turning point in Korea’s history, after which it rapidly entered the modern capitalist world. For Korea, the shock of encountering a new world was not just political, it was undoubtedly economic too. This chapter will consider in detail the profound economic changes wrought by that entry, alongside the inherent problems of the pre-existing economic system and the responses of major actors within Korean society to changing economic conditions.

Scholarly work on the economic history of this period has been heavily shaped by Korea’s subsequent experience of colonial rule (1910–1945). Japanese historians of the early twentieth century such as Fukuda Tokuzō aimed to demonstrate the inevitability of Korea’s annexation by showing that its economic past was backward and stagnant. Korean scholars, both during the colonial period and even more so since, have made great efforts to ‘overcome’ the historiography of stagnation and show that Chosŏn was attempting to modernise itself in the nineteenth century. They have also emphasised the way in which Japanese imperialism in the late nineteenth century acted as an obstacle to Chosŏn’s independent modernisation and the development of an indigenous capitalism.

The debate about Korea’s late nineteenth-century economic history continues today, with varying evaluations of the economic dimensions of the Kabo (1895–6) and Kwangmu Reforms (1897–1907) and starkly differing opinions on the inevitability of Chosŏn’s economic decline and eventual domination by Japan. However, scholarship on this period has also developed in recent decades, and it now seems possible to move beyond simple dichotomies, to take into account both the relative weakness of the Chosŏn state and its agency in economic
modernisation. It is also possible to produce a more detailed picture of the geopolitical setting for economic change, balancing the particular role played by Japanese imperialism with the complexity of late nineteenth-century northeast Asian geopolitics. The shift away from old dichotomies will be beneficial for our historical understanding of Korea's loss of economic and, ultimately, political sovereignty. However, although this period is a relatively well-studied one in Korean history, there are still many areas, such as the economics of everyday life or the relations between the state and commerce, where future research is likely to change our perception of late nineteenth-century Korea.²

Before turning to the main topic of this chapter, we need first to look briefly at the state of the Chosŏn economy prior to the port opening. The economy of late Chosŏn was far from being a 'natural' or 'self-sufficient' economy in which commerce and manufacture barely existed, as some later Japanese historians would come to believe.³ The market had an increasingly important place in the economy of late Chosŏn, from the local markets that connected villages with local and national commercial networks, through the national markets in raw materials and luxury goods, right up to the level of international trade, which was largely carried out through the structures of interstate tribute and diplomatic relations within the 'Chinese world order'.

There was a deep intertwining of state and market in late Chosŏn: since the introduction of the Taedong tax system in the early seventeenth century, the state had come to rely on merchants to procure the goods it needed for its own functions and for its tribute trade with Qing China. It also came to use merchants to transport and dispose of goods it collected as tax (mainly rice, cotton cloth and hemp). Big merchants, for their part, relied on the state and its bureaucracy to provide them with business and to protect their privileges against interlopers (although exactly who counted as a privileged merchant could change over time). Thus, despite the growth of markets, the Chosŏn state, with its formidable capacity to collect and redistribute wealth, was still the most important integrating factor in the late Chosŏn economy.

By the mid-nineteenth century, the Chosŏn state was facing considerable fiscal problems, and this in turn threatened the health of the economy as a whole. The nineteenth century was marked by a long-term trend of decreasing tax revenues for central government, and by the 1860s, the state found itself facing serious fiscal problems. The Taewon’gun⁴ attempted to solve government's shortage of revenue by various means, including the importation of Qing coinage and the first minting of a multi-unit coin (the 100 mun coin, called tangbaekchŏn, minted in 1867). However, the Taewon’gun also spent prodigiously on projects such as the renovation of Kyŏngbokkung Palace and strengthening of the military. Thus, by the time Korea's modern period began in earnest with the first port opening in 1876, the government was having problems meeting its expenditure requirements, and matters were no doubt made worse by the unexpected and sizeable tributary expenses associated with the death of the Qing Tongzhi Emperor in 1875. These financial problems would continue to dog the Chosŏn government for the next two decades and had profound effects on the economy as a whole and the ability of the state to respond to the challenges of the Open Port Period (1876–1910). First, the government's straitened circumstances weakened the traditional merchant class that relied heavily on official procurement trade and also contributed to inflationary pressures in the 1880s. Second, its lack of revenue made it difficult for the government to carry out even the limited modernising reforms it embarked on in the early 1880s and late 1890s or to support any meaningful development of infrastructure, trading companies or manufacturing. This in turn made the Chosŏn state all the more reliant on outside powers, thus setting up a negative reciprocal relationship between Chosŏn’s own financial weakness and the imperial designs of its neighbours, China and Japan.
The impact of port opening

When Chosŏn signed its first modern treaty with a foreign power in 1876, it had already been over 30 years since the Treaty of Nanking had opened Chinese ports (besides Canton) to British trade and 18 years since Japan had signed the Ansei Treaties with the USA and a series of other European powers. The Chosŏn government and ruling elite was therefore at a significant disadvantage since its two neighbours had already learned the hard way about the reality of unequal treaties. Japan was now ready to impose one on another country.

The story of the Kanghwa Treaty is fairly well known. Japan used the very gunboat diplomacy that had been used against itself more than 20 years earlier, first creating a military incident off Kanghwa Island with its ship Unyŏ in September 1875, then blockading the island and finally sending the Kuroda Mission early in 1876 to negotiate a treaty. Chosŏn had rebuffed earlier attempts by Western powers to open trading relations, even when accompanied by military force as in 1866 and 1871. But this time there were various reasons for Chosŏn’s decision to sign its first modern-style treaty, among them the fact that Japan was seen as different from the Western barbarians, a country that was at least partially within the Chinese world order and which had previously had neighbourly (kyorin) relations with Chosŏn. It is apparent that there was also a great deal of naivety about what the provisions of the treaty actually meant and no understanding of the inequality built into the terms.

Those terms were undoubtedly disadvantageous for Chosŏn, and they began the process of weakening Korean sovereignty that culminated in the Japanese annexation of 1910. Besides the opening of the port of Pusan and the agreement to open two further ports in due course, the treaty granted extraterritorial rights to those Japanese merchants and officials who came to live in the newly opened ports. This was the same unequal system that the Western powers had imposed on China and Japan, under which foreign merchants in the treaty ports who were suspected of a crime had to be tried under the law of their own country, effectively creating a system of impunity. The most notoriously unequal economic provision of the treaty was the system of tariffs it introduced, under which there was a complete moratorium for Japanese goods imported to Korea while Korean goods exported to Japan were subject to a five per cent duty.

Chosŏn did not sign its next treaty until the United States-Korea Treaty of 1882, which was in fact negotiated on Chosŏn’s behalf by the Qing Commissioner for Northern Ports, Li Hongzhang. This treaty had rather better terms than the Kanghwa Treaty, recognising the autonomy of the Chosŏn state to set trade tariffs and fixing those tariffs initially at ten per cent on imports from the US and five per cent on Korean exports to the US. However, the Treaty did give US residents the same property rights and extraterritorial privileges as Japanese traders, so in that sense it was every bit as much of an unequal treaty. This was followed rapidly in 1883 by a United Kingdom-Korea Treaty and then a series of other treaties with Western countries, all of which were closely modelled on the US-Korea Treaty. However, the detail of the United Kingdom-Korea Treaty was actually somewhat worse than the US-Korea Treaty in that it denied Chosŏn’s tariff autonomy by introducing conventional tariffs, fixed at seven-and-a-half per cent on British imports and five per cent on Korean exports. It also allowed British merchants to begin to make inroads outside of the treaty ports in the capital itself. In fact this particular trend had already begun in 1882, and in that case it was the Chinese who were the pioneers in opening Korea. After the Imo Soldiers’ Mutiny of July 1882, a first modern-style trade agreement was negotiated between Qing and Chosŏn, which allowed Chinese merchants to reside and open shops in Seoul itself, as well as travel to other parts of inland Korea and to engage in inter-port trade. A similar agreement was reached with Japan the following
year, and thus by the mid-1880s both Japanese and Chinese merchants were operating in the very heart of Chosŏn, competing with each other and with Korean merchants.8

The Treaty of Kanghwa and those that followed in the 1880s had a profound effect on the Chosŏn economy, primarily by rapidly integrating Chosŏn into the international system of trade. What this meant in practice was a radical shift from a system of very limited regional trade centred on luxury goods and based on the state-controlled tribute trade with Qing to a system of free trade with low tariffs in which Chosŏn was very much the inferior partner, completely lacking the productive base of the Western powers or even the emergent industry of Meiji Japan. The opening to international trade saw Chosŏn swiftly placed in an international division of labour in which it exported agricultural goods and raw materials and imported manufactured goods. This can be seen clearly in the trade figures for the period after port opening. Initially, exports of agricultural produce, mainly cowhides and rice, outweighed imports, but as the 1880s wore on, manufactured goods, largely cotton, increased rapidly, and from 1885 Chosŏn began to record trade deficits that continued until the annexation in 1910. The trade figures also show that from the late 1880s, rice and beans dominated Chosŏn’s exports, while cotton usually made up more than half of all imports annually from the mid-1880s up until 1900. The first decades after the opening of ports also saw significant growth in Chosŏn’s foreign trade overall, with the real value of trade increasing by 16 times between 1885 and 1910.9

The new international trade of the 1880s was, however, still dominated by the two countries with which Chosŏn had traded for hundreds of years under the traditional East Asian system of regional trade: China and Japan. On the one hand, Japan dominated Chosŏn’s export market in rice and beans, absorbing more than 90 per cent of Korean exports until the late 1890s. On the other hand, imports were more balanced, most were from Japan during the Open Port Period as a whole, but Chinese imports increased rapidly during the 1880s when Qing dominated Chosŏn politically, to peak at 49 per cent in 1893.

The manufactured cotton cloth that made up the majority of Chosŏn’s imports before the mid-1890s came originally from factories in Europe, mainly Britain, and so Japanese and Chinese merchants were effectively acting as intermediaries in trade between Korea and the capitalist countries of Europe. China’s rising export trade with Chosŏn in the 1880s and early 1890s came from its merchants’ ability to dominate the trade in European cotton through their access to the most important East Asian trade port: Shanghai. Japan’s failure in this intermediary trade encouraged it to focus on exporting its own manufactured cloth to Chosŏn, something it became increasingly successful at during the 1890s. However, the decisive blows in the trade war between China and Korea were dealt by real wars: first the Sino-Japanese War of 1894 and then the Russo-Japanese War of 1904–5. The Sino-Japanese War in particular halted China’s challenge for dominance of Korean imports, and the post-war period saw the Japanese share of imports reaching 72 per cent in 1895. Although Chinese merchants returned to Chosŏn after the war and were able to recover some of their former share of Korea’s foreign trade, they were dealt another blow at the time of the Russo-Japanese War, after which their share of imports dropped as low as 14 per cent in 1906.10

By the late 1890s then, the Chosŏn economy was already locked into a particular set of economic relationships; a variation of the hierarchical international division of labour mentioned above. On the one side, Chosŏn was a market for the manufactured products of Japan’s newly emerging industries, while on the other, Japan imported and consumed Chosŏn’s agricultural products. More specifically, this has been characterised as a ‘rice-cotton exchange system’ in which relatively cheap rice from Korea fed the workers of Japan’s industrial areas, helping to keep wages low. Japanese-produced cotton could then be sold in Chosŏn, helping to make profits for the Japanese textile industry.11
Government insolvency, inflation and the traditional commercial system

It is difficult to quantify exactly the fiscal crisis of the Chosŏn government in the 1880s and 1890s, but we do know that for periods of time it had great difficulty in paying salaries to its officials and soldiers as well as bills to merchants for the goods it procured. Already by the late 1870s, the government owed some 1 million yang to tribute and guild merchants. A decade and a half later, in the early 1890s, the government still owed hundreds of thousands of yang to the guild merchants of Seoul. We also know that the recorded cash holdings of the central government reached a nadir in 1881 at 367,000 yang, having once peaked at 7,000,000 yang in 1809.12

The consequences of government insolvency became clear in 1882 when soldiers in Seoul mutinied over the non-payment of salaries and the adulteration of their rice payments. But the effects were also felt by the traditional commercial system of the capital, centred around the merchant guilds, called sijŏn, that supplied the government with a variety of commodities and were especially important in procuring goods for the tribute missions to Qing. The government traditionally paid the guilds high, fixed prices to secure the goods it needed and allowed them to sell off large quantities of rice or cotton at market prices, often making good profits. However, from the mid-1870s, government debts to the merchants began to mount, although government demands for goods did not decline but in fact increased, partly due to the increased diplomatic activity of the period. To make matters worse, the government for the most part still demanded the goods it purchased at the longstanding fixed prices, even while inflation soared in the 1880s (for reasons we will return to in the next section). This situation brought some of the merchant guilds to the brink of bankruptcy and forced many individual merchants out of the market altogether. A particularly acute case was that of the Myŏnjujŏn – a guild selling domestically produced silk cloth – which in 1892 petitioned the Chosŏn government, claiming that it was losing 80–90,000 yang a year in its trade with the government and was now owed a total of 200,000 yang, a phenomenal amount of money for the time. It, alongside a number of the other guilds, also complained about the problem of inflation, which, combined with the fixed prices paid by the government, could lead to considerable losses or at best meagre profits.

For other traditional big merchants, such as those belonging to the main cotton guild in Seoul – the Paengmokchŏn – the biggest problem facing them was not inflation or government insolvency but rather competition from Chinese and Japanese merchants who had entered Seoul after the trade agreements of 1882 and 1883. As noted above, cotton cloth was the main import to Chosŏn in the 1880s and 1890s and the trade in Western-produced cloth was dominated by Chinese merchants. This influx of manufactured cloth couldn’t fail to have a negative effect on the business of the Paengmokchŏn in particular, although tensions between Korean and foreign merchants were much broader. In the late 1880s this led to organised collective action by the Seoul guilds to recover their monopolies in the face of competition from foreign merchants. This action reached a climax in the first month of 1890 when all the Seoul guilds participated in a merchants’ strike, closing their shops for a week and protesting in front of the Chosŏn Foreign Office. The Chosŏn government was sympathetic to their plight and wanted to renegotiate the terms of its trade agreements with China and Japan in order to remove foreign merchants from the capital to Inch’ŏn or nearby ports on the Han River. But with the powerful Chinese ‘Imperial Resident’ Yuan Shikai based in Seoul and exerting considerable political influence, as well as strong objections from the Japanese, the government was in no position to achieve this.13
There were a number of possible measures that the Chosŏn government could have taken in the 1880s in order to improve its financial situation and alleviate the problems of the merchants. Probably the most effective would have been to completely overhaul the taxation system, consolidate the fragmented central financial institutions and attempt to balance the budget. But this was politically difficult to achieve in the 1880s, and by the time this sort of comprehensive reform did get underway with the Kabo Reforms of 1894–5, the state and the reformers were firmly under Japanese influence. Another route was to seek foreign loans to supplement government revenues, something that Chosŏn did in fact do in the 1880s, but only with very limited success.\textsuperscript{14}

The actual approach chosen by the government was to muddle through, continuing to spend well beyond its means while at the same time attempting to protect the traditional commercial system from the worst of the consequences. Certainly in the late 1880s and even in the early 1890s, the Chosŏn state was still strongly committed to preserving the traditional commercial system centred around the privileged merchants of the Seoul guilds. Despite its own profound weakness, it tried to find ways of doing this, such as partially abandoning the fixed price system, allowing merchants to be paid out of local government revenues rather than the central coffers and cracking down on predatory practices towards merchants by branches of government.\textsuperscript{15}

The government also turned to an old and previously unsuccessful method of supplementing its revenues: the minting of debased cash. A five mun coin called the tang’ojo was minted in 1883–4 and again in 1888, with an intrinsic value only two times that of the traditional one mun coin, while a debased one mun coin was minted in Pyongyang in 1893. The inevitable result of the debased coinage was series of bouts of sharp inflation, which can be seen quite clearly in the Seoul market prices listed in government gazettes of the 1880s, Hansŏng Sunbo and Hansŏng Chubo. This was joined by other inflationary pressures in the 1880s and early 1890s such as bad harvests and the increasing exports of Korean rice, which meant that rice prices began to be influenced not only by conditions in Korea but also by demand in the export market, Japan. Overall there was a gradual tendency for the prices of Korean rice and other consumer goods to catch up with prices in closely connected markets such as Japan. The very sharp rises in prices in the 1880s have been termed a ‘price revolution’, a one-off transformation that irrevocably destroyed the relative price equilibrium of the late Chosŏn period, which had been underpinned by the powerful system of state redistribution.\textsuperscript{16}

The economic turmoil of the 1880s, particularly in Seoul, had significant social and political consequences. The rioting and political turmoil that followed the Imo Soldiers’ Mutiny of 1882 and the Kapsin Coup of 1884 in Seoul had an obvious economic dimension as many ordinary city-dwellers found their livelihoods threatened by inflation, shortages, government insolvency and the encroachment of Chinese and Japanese merchants. There were almost certainly other less-well-known episodes of urban unrest during this period, and it is also known that during periods of acute inflation or shortages in the late 1880s and early 1890s, significant parts of the capital’s population left the city for villages in the surrounding countryside where food could be found more easily and cheaply. In the 1890s, as Japanese merchant capital penetrated the interior of Chosŏn, the state attempted to solve its financial crisis by raising taxes and local government officials turned to increasingly corrupt practices, the same sorts of problems arose in the countryside. This worsening economic situation for already poor Korean peasants was no doubt the main impetus behind the growth of the millenarian Tonghak movement and ultimately the huge peasant uprising that broke out under its banner in early 1894.
New merchants and new markets

While a combination of government insolvency and the arrival of international trade in Korea began to destroy the centuries-old traditional commercial system, new markets and new groups of merchants also began to grow at a fast pace. In the 1880s and 1890s, a commercial revolution was taking place in Korea. As we have seen, this revolution could be very destructive and for many people, including both poor city dwellers and once-wealthy merchants, it was a disaster. But for others, there was a bonanza. In addition to the merchants who came to Chosŏn from all over China and Japan to try their hand in the new treaty ports, there were also many beneficiaries from closer to home. Chief among these beneficiaries was the group of Korean merchants called kaekchu who acted as intermediaries between foreign merchants and domestic traders. They had existed before the port opening as a layer of merchants who helped to facilitate trade by working as middlemen or providing financial or lodging services. Now at the treaty ports they came to play a crucial role carrying out consignment trade with Japanese and Chinese merchants and were able to grow rapidly in numbers and wealth, reaching almost 500 by the late 1890s in the treaty ports of Pusan, Inch’ŏn and Wonsan. For a while their position at the nexus between international trade and domestic markets was very lucrative, and they were able to open offices in Seoul and the treaty ports to represent their interests.

However, the kaekchu remained to a large extent subordinate to the Japanese and Chinese merchants that they dealt with, unable to match their capital and lacking in the concerted state backing that they enjoyed. Japanese merchants, for example, were given low interest loans, while the Japanese government put considerable efforts into supporting maritime shipping for the sake of its merchants. In addition, the unequal treaties gave the foreign merchants a number of advantages over their Korean counterparts, particularly in legal disputes. Having said this, it is not the case that the Chosŏn government completely neglected its merchants. Despite its financial constraints, it did attempt to support the kaekchu and other merchants by providing capital from local tax receipts using a system known as oehoek. Although this system came to be used more frequently after the Kabo Reforms of 1894, it was still a rather unstable means of supporting merchant capital and it could never level the playing field between Korean and Japanese or Chinese merchants. As a result, the kaekchu became increasingly dependent on their foreign counterparts, often relying on them for capital, then becoming indebted to them and finally going bankrupt.17

A broader social change spurred by the opening of ports was the growth of the landlord class in the countryside. Landlords and rich peasants were another group who were able to benefit from the growth of international trade and the demand for Korean rice, accumulating wealth and land as rice prices rose. Merchants who made their fortune in the treaty ports or developing inland trade could now invest their money in land and become major landlords. Meanwhile, poorer peasants continued to be pushed into landless status and were not in a position to benefit from the demand for rice since they had to either consume or quickly sell the rice they produced.

The Open Port Period in general saw the market emerge as the dominant mode of economic integration in Chosŏn society, while other aspects of capitalism such as wage labour and industrial production still remained very marginal. The number of local markets in the country had remained static during the nineteenth century, but during the Open Port Period the numbers began to grow again as commerce became increasingly important in the Korean countryside. At the same time, the treaty ports themselves – Pusan and Inch’ŏn in particular – grew from small towns to significant commercial cities, overtaking Seoul as the centre of Chosŏn commerce. These new treaty ports, with their foreign residents and kaekchu, began to exert a considerable force over
the rest of the economy, absorbing distribution routes and production areas into their orbit. Most dangerously, they sucked rice out of the regions surrounding them, causing periodic shortages, and these shortages even affected the capital and other major cities like Pyongyang, causing unrest, as mentioned above. The Chosŏn government attempted to ease these problems by using its power to prohibit the export of rice (using a measure called panggok), but Japanese traders and government objected strongly to this state intervention and brought suits for compensation. By the late 1890s, therefore, it became increasingly difficult for the government to use this means of controlling the market.\textsuperscript{18} The Kabo Reforms of the mid-1890s, which will be considered in more detail in the next section, also acted to reduce the power of the state to redistribute resources outside of the market, chiefly by monetising taxation. This went along with the more general decline in the economic power of the state, as recounted in the previous section, to further spur the growth of the market. Another factor in the growth of the market during this period was the introduction of modern financial institutions and communications infrastructure, beginning in the second half of the 1880s. However, an even bigger boost to market growth came in the early 1900s with the development of a national rail network that could safely and speedily link treaty ports, cities, commercial towns and their agricultural hinterlands.

**Modernisation and industrialisation: early state-led development versus foreign encroachment**

From early in the Open Port Period the Chosŏn government adopted a pragmatic modernisation and self-strengthening policy aimed at countering the threat from the ‘foreign barbarians’. However, prior to the Kabo Reforms of 1894–5 this state-led modernisation took place largely within the limits set by the framework of the slogan ‘Eastern ways, Western means/technology’ (tongdo sŏgi). This meant that the early reforms focused on limited changes to government institutions and attempts at modernisation that focused on strengthening the military through better training and more modern equipment. At the same time, the government did begin to encourage some new forms of economic activity. In the early 1880s the government directly set up a number of modern-style companies and supported others to found trading companies through special tax breaks. In 1883 the Chosŏn state set up a publications office (Pangmun’guk), which would begin to introduce Koreans to knowledge about the rest of the world and to ideas about capitalism, by printing the first Korean newspaper, the Hansŏng Sunbo. Then in 1884 the state established the first post office in Seoul and set up a postal service between Seoul and Inch’ŏn, providing for the first time a public channel of communication between the capital and the nearby treaty port. Meanwhile, the government also began to explore ways to develop Korean industry on a more modern basis by hiring Chinese advisors on sericulture and textile manufacturing. It set up a model farm intended to introduce modern agricultural techniques from the US, established a modern paper mill under state control and supported the founding of a Korean steamship line intended to compete with the Japanese in the early 1890s. However, all these attempts at economic modernisation in the 1880s and early 1890s were extremely limited in their scale and further compromised by the more general weakness of the Chosŏn state, with its parlous finances and limited access to modern technology.

While the Chosŏn state was actively pursuing a form of limited modernisation in the late nineteenth century, much of the new economic infrastructure and the earliest signs of industrialisation were in fact brought to Korea by its encroaching neighbours. It was the Chinese and Japanese who brought modern-style banks to Chosŏn as well as shipping lines and the telegraph system (first installed on the Korean peninsula by the Chinese in 1885, although there was already
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a Pusan-Nagasaki undersea cable owned by the Japanese). It was also they who introduced some of the first modern manufacturing facilities, such as the brick kilns established in the environs of Seoul in the mid-1880s by the Chinese or the mechanised rice mills established by the Japanese in the treaty ports from the late 1880s. In order to serve Chosön’s growing resident Japanese communities in the late nineteenth century, Japanese businessmen also established industrial enterprises producing soy sauce, tobacco and distilled spirits, but this sort of small-scale manufacturing was still a far cry from the extensive industrialisation that was taking place in Japan itself at the same time. By the end of the 1890s, some Korean-owned factories were also being established, mainly in textiles and often operated by government officials or rich merchants.

The reform government that came to power in the summer of 1894 with the backing of the Japanese military forces then occupying Seoul and was led by members of the Enlightenment Party who had long wanted to emulate Japan’s Meiji reforms and transform Chosön into a strong modern nation. With some irony they finally got their chance to enact these reforms just as Chosön’s two neighbouring powers fought a bloody war for supremacy on its soil and a huge peasant uprising wracked the countryside. Under these circumstances and after almost 20 years of unequal treaties and foreign encroachment into the Chosön economy, it is no surprise that the reformers were unable to emulate Meiji Japan in Korea. However, the Kabo Reforms that began in 1894 and carried on into 1895 did bring many important top-down economic changes. More specifically, the reforms represented a series of radical changes in the economic operation of the state which then had profound impacts on society at large.

Perhaps the most important economic reform of this period was the thorough overhaul of taxation that simplified the diverse and complex tax system and completely monetised it for the first time. Although taxation had already become increasingly monetised in the late Chosön period, taxes were still being collected in rice and cloth alongside cash prior to the Kabo Reforms, which meant that these commodities were often used as currencies too and could theoretically be exchanged with cash at official rates. Besides tax reform, a modern-style government budget system was introduced, the currency was placed on a silver standard and the buying and selling of slaves was prohibited. This latter reform was fairly straightforward since slave ownership had been declining for a long time and all state-owned slaves had been manumitted almost a century before.

Japan’s victory in the Sino-Japanese War of 1894 brought a decisive end to Qing’s status as suzerain over Chosön, and with this centuries of Korean tribute to China were also brought to an end. The Kabo Reforms officially declared the abolition of the annual tribute missions, and this had significant economic as well as geopolitical implications since the elite guild merchants of Seoul were responsible for providing large quantities of tribute goods for the missions. With the disappearance of this form of procurement, a large part of the guilds’ raison d’être also disappeared. This wasn’t the only blow that the Kabo Reforms dealt to the traditional commercial system. They also did away with the monopoly privileges of the largest and wealthiest guilds in the capital (often referred to as the Six Guilds) and the privileges enjoyed by the pedlars’ guilds. At the same time, the reform government introduced new regulations on the establishment and operation of modern-style companies in an attempt to shift commerce from the old monopoly–based system to one based on competition among companies.

This attempt to develop the Chosön economy by fostering new businesses was one area where the aims of the Kabo Reform government clashed most clearly with their Japanese supporters. While the former wanted to support Korean businesses in order to strengthen the economy, the latter were already preparing the way for their eventual colonisation of Korea and were busy seeking concessions that would benefit Japanese capital. Thus, Japan used means
such as loan conditions to try to prevent the Chosŏn state from developing Korean businesses. However, even after the fall of the Kabo government and the establishment of the Great Han Empire in 1897, the new government continued the policy of trying to strengthen Korean business so that it could compete with foreign capital. The government continued to be closely involved in the establishment of new companies. However, unlike the self-strengthening period of the 1880s, it did not directly establish enterprises itself but rather worked closely with private businessmen, some of whom even came from a traditional merchant background. The Great Han Empire government also supported the development of modern infrastructure in the areas of communications and shipping and founded or supported a number of schools designed to educate engineers and businessmen. In 1898, the government began a much-needed modern-style land survey to determine the value of all land in the country and to establish ownership rights and cultivation rights. This survey used modern techniques and aimed at increasing tax revenues and establishing modern property rights regulated by the state, but it was never completed and stopped at the time of the Russo-Japanese War.

While the Chosŏn governments of the 1890s strove to support nascent modern industry and business, foreign capital was also making considerable headway into the Chosŏn economy. In the mid-1890s, while Japan was temporarily on the back foot, a variety of countries moved in to gain economic concessions. Between 1895 and 1897, US, British, French and German companies all gained mining rights in Chosŏn, mainly for gold mines, such as the British mine at Ŭnsan in northeastern Korea, owned by Chosen Corp. Ltd., or the American mine at Unsan, owned by the Oriental Consolidated Mining Company. The Russians and the Japanese gained rights to other natural resources such as timber, fishing grounds and coal. Both the Americans and the French signed railway concession deals in 1896, with the US businessman James R. Morse getting a concession to build a railway between Seoul and Inch’ŏn and the French civil engineering company Fives-Lille a similar one for a line between Seoul and Ŭiju on the border with China. Two years later in 1898, an agreement was reached between the Great Han Empire and a pair of American businessmen to set up a company that would begin the electrification of Seoul, install water mains and construct a tram system, the first in Asia. It is significant, however, that neither the Seoul-Inch’ŏn rail line nor the Seoul-Ŭiju line were actually completed by American or French companies, but instead hit practical and political obstacles and were taken over by Japanese companies. This was also a sign of Japan regaining its political and economic influence in Chosŏn in the late 1890s as it built on its dominance of Chosŏn trade and saw off its European and American competitors.

The Chosŏn economy in the first decade of the twentieth century

After the Russo-Japanese War of 1904–5, Japan was finally in a position to begin the process of turning Chosŏn into a colony in earnest. This it did with the Protectorate Treaty of 1905, which gave Japan complete control of Chosŏn’s foreign relations and stationed a powerful Japanese resident-general in Seoul. Although the Chosŏn state had been gradually losing its sovereignty over the three decades since the Kanghwa Treaty, it was the Protectorate Treaty that put the country firmly on the path from semi-colony to colony. As a result, Japan was able to place its advisors into the Chosŏn government and gain almost complete control over economic policy, setting about restructuring the Chosŏn economy in its own favour almost immediately.

One of the first measures was a complete reform of the currency system that abolished the existing money and introduced a new Chosŏn currency subordinated to the Japanese yen. The basic unit of the currency system also changed from the traditional yang (made up of 100 mun...
coins) to the won (using the same Chinese character as the Japanese yen). This meant that Chosŏn was essentially brought into the Japanese currency system, bringing great advantages for Japanese merchants doing business in Korea. Korean merchants, however, were hit very hard by the currency reform. Despite facing competition from foreign merchants and losing their official monopoly, the Seoul merchant guilds had adapted and were still dominating the capital’s retail commerce at the turn of the century. But the 1905 currency reform caused them a huge financial shock, leaving them extremely short of cash. As a result, many merchants had to sell or pawn their assets to get cash, and many are said to have been bankrupted.

The Chosŏn Residency-General also carried out a reform of government finances and taxation in 1905, which brought the tax collection system more firmly under central control and put the state treasury in the hands of the Japanese Dai-ichi Bank. These reforms also sought to separate more clearly the finances of the state from the finances of the Korean imperial house. The main aim of the reforms was to increase tax revenues in order to fund the nascent colonial state and the infrastructure projects – chiefly the expansion of the railway system – that the Japanese saw as crucial to their domination of Korea.

In 1909 the colonial government established the Bank of Korea (its name was later changed to Bank of Chosŏn) and transferred to it the central banking functions formerly held by Dai-ichi Bank. In this period the Japanese Resident-General also set up a series of other financial institutions to facilitate the development and exploitation of the Korean economy. Among them were the Agricultural-Industrial Bank, founded in 1906, and the Oriental Development Company, founded in 1908. The latter played a particularly infamous role during the colonial period by acquiring huge amounts of Korean land and also promoting Japanese colonial settlement of Korea.

Another very important development in the years leading up to the annexation was the breakneck construction of a nationwide rail network. The first line, connecting Seoul with Inch’ŏn, had been taken over by the Japanese from its American concession holder in 1898 and the bulk of the line completed in 1899. In 1905, the first major route – the Seoul-Pusan line – was completed by a Japanese syndicate essentially controlled by the Japanese state. The Seoul-Ŭiju line, which had originally been a French concession, was also taken over by the Japanese and completed at speed during the Russo-Japanese War, reaching completion in 1906. In the same year, the whole of the Chosŏn railway system, now consisting of three lines, was formally nationalised in a move aimed at confirming the control of the Japanese. By 1910, then, Chosŏn had 1,086 kilometres of railways, directly under Japanese control, that linked Japan via Pusan with the main commercial and administrative centres of the Korean peninsula and on up into Manchuria. Although, it is worth noting that it was not until 1911 that a rail bridge over the Yalu River was completed at Ŭiju, finally connecting the Chosŏn rail system with Manchuria.

Neither the Chosŏn government nor the foreign investors they initially gave concessions to had the capital necessary to build the main trunk routes through the Korean peninsula. In the end it was actually the Japanese state, driven initially by military concerns at the time of the Russo-Japanese War, that carried out the construction of the two main lines. The development of the rail system absorbed large amounts of resources and was the focus of Japanese capital exports to Korea in the pre-annexation period. Railways were an effective way for Japan to increase its control over Korea economically and politically, just as other colonial powers did elsewhere in the world. They also laid the way for its later military expansion beyond the Korean peninsula into northern China. It was Koreans who paid a heavy price for their construction, with large areas of land confiscated and many thousands of Korean workers conscripted to work in dangerous conditions as the railways were built rapidly in mountainous territory.
Conclusion

The opening of Chosŏn’s ports from the 1870s brought a series of dramatic economic changes to Korea. The external influences and interference of this period did not act upon an unchanging Chosŏn society but found a country already undergoing profound changes and facing crises that were largely internally generated. Certainly the most prominent economic change of this period was the arrival of modern international trade, which transformed forever the Chosŏn economy and the lives of millions of people by introducing new commodities (principally factory-produced cotton) and spurring the production of others (mainly rice and beans). In a short space of time, Chosŏn was detached from the Chinese world order, with its circumscribed and ritualised international trade, to become a small part of the global capitalist system. And as we have seen, this had profound effects not just in the treaty ports but throughout Korean society, as the influence of the international market reached into remote parts of the country. The changes wrought by the arrival of international trade were often reinforced by the financial crisis of the Chosŏn state, which in the 1880s had reached a position of insolvent. Thus, the traditional commercial system of the capital was hit by both competition from foreign merchants and the inability of the government to pay for the goods it procured. It was also a combination of the decline of state-centred redistribution and articulation with the world market that caused the high inflation and periodic shortages of the late nineteenth century that so affected the lives of ordinary Koreans.

Koreans could and did respond to the economic challenges of this new period in creative ways, both at a private level and at the level of the state. Successive Chosŏn governments attempted – with varying success – to introduce economic reforms, establish modern economic institutions and foster the development of the economy through state-led or state-supported enterprises. But at every turn these reforms and initiatives were held back by interference from the imperialist powers, primarily China and Japan; lack of government funds; lack of knowledge and technical expertise; and political divisions within the Chosŏn elite over which direction to take. Meanwhile, at the private level, absorption into the capitalist world system did mean riches for some private merchants, landlords and farmers who had much to gain from Japan’s demand for Korean rice. Then in the first decade of the twentieth century, Japan gained the upper hand in the geopolitical struggle over Korea, allowing it a free hand to reform Chosŏn’s economy in a direction beneficial to its own capital and to its broader strategic aims.

The most prominent question arising from this period is why Chosŏn’s efforts to effect economic modernisation in the late nineteenth century failed and Japan was ultimately successful in colonising Korea. Like most historical questions, the picture is complicated and multi-faceted and a full and definitive answer might be impossible, but we can point to some of the primary factors behind this failure. One of the most fundamental was the near bankruptcy of the Chosŏn state in the late nineteenth century, resulting partly from its narrow and declining tax base. Without capital, economic reforms and state-led self-strengthening were doomed to failure. And while there were meaningful attempts at reforming the taxation system, particularly with the Kabo Reforms, they were almost certainly too late and probably too little, since they did little to tackle the fundamental problem of land measurement. The governments of the late nineteenth century were constantly plagued by political divisions and in-fighting but were also divided around quite fundamental issues about how far reforms should go. Put simply, there was no political revolution that could clear the way for a decisive programme of reforms, a programme that would have to attack some vested interests. By the time thorough reforms were carried out in 1894–5, they were already compromised by direct Japanese interference. As was noted at the beginning of this chapter, the weakness of the Chosŏn state forced it to rely on a series of outside powers (China, Russia and finally Japan) and this tended to compromise its efforts at modernisation almost as soon as they began.
It goes without saying that foreign encroachment into the Chosŏn economy was one of the main factors behind the failure to modernise independently. As noted at the beginning of this chapter, by the time Chosŏn was forced into the world system, its neighbours, Japan in particular, had gained a significant head start in the process of capitalist modernisation. Thus, from the very beginning of Chosŏn’s entry into the global system, it faced economic interference from the imperial powers in a variety of forms. There were the aggressive trade practices of Japanese and Chinese merchants built on the unequal treaties and backed by their respective governments; the manipulation of the Chosŏn government through the control of foreign loans; the scramble for economic concessions in the 1890s; and finally Japan’s direct takeover of Chosŏn economic policy in the early 1900s. From the very beginning in 1876, Chosŏn had lost a considerable part of its economic sovereignty and it was never able to regain this. For good or ill, Chosŏn did begin the process of economic modernisation in the Open Port Period, but it did not do so on its own terms and it did not lead to the establishment of a ‘strong and wealthy’ independent nation, as the Meiji Restoration had done in Japan.

Notes

1. For the most part I will use Chosŏn and Korea interchangeably in this chapter. However, the government of the period in question will usually be referred to as Chosŏn.
2. For more on the origins of the stagnation theory of Korean history, see: Miller, ‘The idea of stagnation in Korean historiography.’ In the 1970s a major debate developed among Korean historians over the economic and land reform efforts of the Kwangmu government, centred around Kim Yonggŏp, Sin Yongha and Kang Mangil. See: Kim, Y. S. ‘Kwangmu nyŏn gan ŏi yanggŏn sāp e kwanhan il yŏn’gu’; Sin, Y. H. ‘Nonjaeng: <Kwangmu kaehyok non> ŏi munjeŏn’. A recent example of negative views of nineteenth-century economic history would be Yi Yonghun’s new stagnationist historiography in ‘Chosŏn hugi kyŏngjesa ŏi saeoun tonghyang kwa kwaje’. Examples of recent innovative work on this period include Larsen, Tradition, Treaties, and Trade; Yi, S. N. Cheguk kwa sang’in; and Duus, P., The Abacus and the Sword.
4. As King Kojong was too young to rule, his father Yi Ha-ŭng acted as regent with the title Hŭngsŏn Taewon’gun.
5. The ports of Wonsan (on the east coast) and Inch’ŏn (close to Seoul) were opened in 1880 and 1883, respectively. In the years 1897–99, a series of further ports were opened to foreign trade: Mokp’o, Chinnamp’o, Kunsan, Masan, Sŏngjin and Pyŏngyang.
6. Conventional tariffs are tariff levels that are negotiated between the two parties and then fixed, thereby abrogating the right of the parties to set their own tariffs independently.
7. Regulations for Maritime and Overland Trade (Cho-Ch’ŏng sangmin sonyuk mup’yŏk changgŏng).
8. Larsen, Tradition, Treaties and Trade, chapters 4 and 7.
9. The figures used here are based on table 6–1 in Yi, H. C., Han’guk kyŏngje t’ongsa, p. 258.
10. The trade figures used in these two paragraphs are based on table 6–2 in Yi, Han’guk kyŏngje t’ongsa, p. 260.
15. Miller, The Silk Merchants of the Myŏn’gŏn: Guild and Government in Late Chosŏn Korea.
18. McNamara, Trade and Transformation in Korea, p. 32; Yi, Han’guk kyŏngje t’ongsa, p. 280.
References


