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Greece and Korea – Analogy of the two peninsulas

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The important point to note is that the Greek government-debt crisis is depriving from structural inconsistency between the unified monetary policy of the ECB and the comparative independent fiscal policies of the member states of the EU within the Euro Zone. Today, we are inclined to consider that there is no previous instance for this current problem because of its high modernity. The following, however, serves as a rare historical similar case.

This example, which has been nearly forgotten today, is found in the history of the relation between Japan and Korea before the end of the WWII in 1945. On 22 August 1904, Japan and Korea concluded the first Japan–Korea Agreement, so that a financial adviser appointed by the government of Japan was delegated to Korea (Joseon dynasty) for financial reforms. In the following year, 1905, backed up by Japan, the government of Korea raised government bonds worth 2 million yen for the first time in Tokyo.

Hereafter, the government of Korea took out about 15 million yen loans without interest from the government of Japan, partly as a monetary circulation fund. The amount of the national debts of Korea had been increasing year by year, and consequently in 1910, when the Japan–Korea Annexation Treaty concluded, it reached approximately 46 million yen. The annexation, however, exempted Korea from repaying of their debts owing Japan.

At the beginning of the annexation, the government of Japan formed a plan for the monetary system to circulate the bank-notes of the Japanese yen also in the Korean Peninsula. But the Finance Ministry of Japan, which was worried that economic crises originated in Korea would have happened to spread into Japan, opposed strongly this original single currency plan. After all, in 1911, the Government of Japan re-established the Bank of Korea (Bank of Chosen) by replacing of the former Korean Bank founded in 1909. The Bank of Korea began to issue the bank-notes of the Korean yen convertible to that of the Japanese yen of equal value under the gold standard.

At that time, Korea was one of the rather poor underdeveloped countries under the long-time influence of perverted Confucianism. Enormous amount of public investment was necessary for modernizing its governmental systems, especially the judiciary, improving Korean's standard of living and educational institutions, and supplying the demand of infrastructures to industrialize and to grow its economy.

As a matter of course, these necessary expenses exceeded the total amount of the ordinary revenue of the Government-General of Korea which was collected within the Korean peninsula. Therefore, the government of Japan, whose expenditure covered all of the military defense cost of the Korean Peninsula except the wartime finance from 1937 to 1945, started fiscal-transfers to Korea in order to balance the budget of the Government-General as the subsidies from the Imperial Japanese Treasure. Japan continued this national fiscal policy for 35 years from 1910 to 1945.

Compared with this past case, it seems that the existing Greek financial default crisis would be more difficult to resolve than that of Korea about 100 years ago. There are several reasons for that. One reason is that the international principles of present-days, especially the principle of the sovereign equality and the principle of self-determination of peoples, never allow Germany and any other countries to annex Greece.

Another reason is that considering of capacity and public nature of the ESM or other international financial institutions, it would be impossible for the EU to finance Greek annual deficits as relief measures perpetually. Even though the EU has its own resources system, the fiscal system of the EU is the multi-layers model based on the respect of the sovereignties of member states as mentioned above. Accordingly, there seems to be no fundamental measures other than to reduce the scale of the Greek budget and/or to increase the Greek revenue by promoting the economic growth towards the sustainable balanced budget, whether Greece will secede from the Euro Zone, or not in future.

Of course, one may say that the EU should facilitate the fiscal integration to such a level as establishing the built-in-fiscal-transfers-system within it as Japan did 100 years ago. If it would realize, the Greek government-debt crisis could be settled at once. But prospects for achieving any agreement about the built-in-fiscal-transfers- system among the member states are very poor, because public opinions of the member states have already come to be against such an idealistic plan, particularly in Germany.

Besides, there is a rumor that Greece would be trying to ask Russia or China for financial help in exchange for some concessions including military leases of territory facing towards the Mediterranean Sea. If this rumor be true, a further question will arise whether the EU should react against the military threat of expansionism or not. Historically, Japan's main purpose of the Annexation of Korea was to block and obstruct the expansion of the Russian Empire (the U.S.S.R on and after 1917 to 1945) into the East Asia. On the other hand, it is also doubtful whether Russia or China, either of which is now being faced with domestic instabilities, will have financial spare to fill all of the Greek deficits forever.

In spite of a difference in century and region, these two peninsulas, the southern part of the Balkan Peninsula in the 21st century in the Occident and the Korean Peninsula in the 20th century in the Orient, seem to be analogous. The same observation applies to the present attitude of these two countries: while regarding their supporters as oppressors, they try to win further concessions from them overbearingly.

Reflection on some of these will make clear that for the EU, more harmonious and flexible design with safety devices may be necessary for settling the problems arising from the inconsistency between monetary and fiscal systems. And for any country facing up its own problems, including financial crisis, it is to be desirable not only to negotiate with other parties sincerely but also to make an effort to find out by itself the key to the solution.

(This is the English version of an article written by KURANISHI Masako, Political Scientist, which originally appeared on the e-Forum "Giron-Hyakushutsu" of GFJ on July 21, 2015.)