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The Development of International Banking in Asia

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The Development of International Banking in Asia

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Preface[1]

The beginning of human civilisation brought about the beginning of international trade. Its history is divided into three major stages: first, when sailing ships connected different areas of the world; second, when steamships and telegraphs connected all parts of the world; and third, the modern age in which large ships, aircraft, and the Internet could connect countries and people in a short period of time. The international trade methods of each of these three stages differ greatly. This book seeks to clarify the structure of settlement and finance in the first two stages of international transactions, primarily from a banking perspective.

[1]The content of this Preface is primarily based on the summary of the Preface of *Kokusai-Ginko to Ajia, 1870–1913* (*International Banks in Asia, 1870–1913*) written by Dr. Shizuya Nishimura, Motoaki Akagawa, and Toshio Suzuki. Takeshi Nishimura summarised these three distinguished scholars' preface and translated it from Japanese to English. Needless to say, all mistranslations and misunderstandings of the content of the preface are the editors' responsibility.


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Caroline Is. (Ger.)
Palau Is.
Yap
Admiralty Is.
Tropic of Cancer
Arctic Circle
Greenwich
100°
110°
120°
130°
140°

The first stage, when different areas of the world could only be connected by sailing ships, lasted several thousand years into the mid-nineteenth century. During this period, international trade was characterised by limited trade with the use of a barter system. The traded items included valuable goods, such as luxury articles, and regional specialties. In the nineteenth century, European export products were sold locally and the profits were used to purchase bills on London for remittances to their own countries. These bills were drawn on the collateral of merchandise exported to Europe, and then used as a form of payment to Europe. This method is a type of bilateral barter trade. Payment methods have since diversified as international exchange has increased. For example, in the early nineteenth century, a system of triangular trade was used. The money earned from cotton goods exported from London to India was used to purchase opium, which was then transported and sold in Canton, and the revenue from this transaction was used to purchase silk and tea. As these transactions expanded and became common, merchants based in port towns developed trusting business relationships. Therefore, instead of immediately settling each transaction, they would offset transactions during a fixed period and pay any balance in precious metals.

During this period, Europeans spent considerable time and effort in obtaining information from remote, global areas. Sailing was the primary method of transportation, and very few trips could actually use coal-powered steamships. However, in the early nineteenth century steamships became able to navigate the oceans, making it possible for urgent mail and freight to be delivered more quickly than before. These services began in the 1820s on a route across the North Atlantic Ocean connecting the UK and the USA. In the 1840s, services provided exclusively by steamships began to increase and the time required to transport various cargos by steamships to all over the world decreased dramatically. When steamship services began, a one-way route would take approximately thirty days. With improved steamship performance, it became possible to deliver a letter in less than one week. However, the establishment of an information network across the North Atlantic Ocean was a large undertaking, and it was many years before it was possible to transmit information, especially between Europe and Asia. This changed with the opening of the Suez Canal in 1869.

Before the opening of the Suez Canal, sailing ships travelling from London to India had to go around the Cape of Good Hope. In the early nineteenth century, a one-way trip would take approximately three months, even when ships with both sailing and steamship functions were put into service. It is assumed that a round trip between London and India would take approximately one year, taking into account seasonal monsoons and tidal currents. By the mid-nineteenth century, land and sea routes were combined to develop a route from London to Bombay through the Suez, which made it possible to transport letters, passengers, and expensive goods in less than one month. In addition, in 1865, a telegraph network was established between Turkey and Persia, but due to many failures and defects in the transmission of information, reliability was not improved.

During the mid-nineteenth century, transportation times in remote areas were long and unpredictable, and transportation was very expensive. According to D. C. North, shipping cost in the 1820s in the USA was about 3.3 times that of the cost at the beginning of the twentieth century (North 1958, p. 549).[2] From this point, it is assumed that transportation costs were higher in the eighteenth century. As a result, until the early nineteenth century, low-priced items were rarely traded in long-distance trades, except for cotton. The only products imported into Europe from China were high-priced luxury items, such as silk and tea. Conversely, the exports to China were cotton goods, which had relatively high unit prices.

As mentioned above, in the early nineteenth century, a round trip between the UK and India took approximately one year. Because of this, British merchants who exported goods to India had to predict the future market situation based on current local information and decide what goods to export. If the quantity of goods shipped were less than local demand, then there would be a profit loss. If excess goods were shipped, these goods would have to be sold at a lower price locally or stored in a warehouse incurring additional inventory cost. In addition, transit time for some products was a few months. Therefore, trading with remote areas required a company to be financially stable, and thus only large trading companies capable of withstanding low capital turnover were able to enter this field. Furthermore, the interest rates to finance high inventory levels were higher than expected. Because most of small and medium-sized trading companies were not financially stable and not easy to secure enough money to enter this field, they could not trade with remote areas by themselves. For that reason, they then had to participate in a part of large transactions organised by a large-sized trading company which was financially stable and able to secure enough money for trading remote areas. However, to send money to the UK, small and medium-sized trading companies had to buy bills on London from the large trading company, such as the East India Company, because there was no international bank with branches and agencies in both London and remote areas around their business. As a result, transactions by small and medium-sized trading companies could not be conducted without the support of a large trading company.

This situation changed substantially in 1870, when a submarine telegraph cable was built between London and Bombay. The ability to send information quickly through telegraphs made it possible to receiving local market information or local orders (Garett 1959; Kaukiainen 2001). Sending shipment notifications made it possible to sell goods forward and confirm the profit in advance. Furthermore, when the ship arrived at its destination, the final destination of the cargo was known and the next cargo was at the port ready to be shipped. Because the fuel and other preparations needed for the voyage were arranged in advance, the ship's lay time was minimised, leading to increased shipping productivity. The stock level of the port also decreased significantly due to the pre-planning. Furthermore, telegraphic exchange became available, allowing for faster collection of payments. The

[2]This figure was calculated by Shizuya Nishimura with North's data of American export freight rate index, 1815–1910.

combination of these factors made possible to increase capital turnover, to achieve improved profit rate information, and to result in price declines.

The Bank of Australasia, established in 1835, was the first UK-based bank with its head office in London and branch and agency offices overseas. Since then, overseas banks with global target businesses began to be established. In the 1870s, when information transmission between the head office and the branch and agency offices became possible via telegraph, the UK overseas banks began to expand their business. These banks' overseas branches and agencies gave loans to European and American merchants who were doing business locally. By providing financial services, they were able to provide financial aid to merchants and sell their bank drafts to importers who needed to remit import costs to Europe and the USA. Then, using the local currency received as payment, exporters bought bills on London, sent the bills to the head office in London, and offset the head office's bank drafts sold to the importers. In this book, an international bank is defined as a bank that develops this type of business.

The opening of the Suez Canal in 1869 was a major opportunity for trade between Europe and Asia (Fletcher 1958; Farnie 1969). The option of crossing the Suez Canal greatly shortened the route to Asia, which previously involved the passing of the coast of the Cape of Good Hope. In addition, as the winds in the Suez Canal and the Red Sea were weaker than Indian Ocean winds, it was difficult to use sailing ships, so the use of steamships rapidly expanded. In the North Atlantic Ocean, steamship freight rates were higher than that of sailing ships in the mid-nineteenth century, so transportation by sailing ships was maintained throughout the late nineteenth century.[3] On the other hand, since travelling the Suez Canal significantly reduced transportation times compared to that of the North Atlantic Ocean, steamships have become able to compete with sailboats. Furthermore, the reduced shipping time and ability to create regular schedules due to steamships overturned the monopoly of large trading companies. This enabled the entry of small and medium-sized trading companies into trades between European and Asian countries. As a result, the trade environment in Europe and Asia has quickly changed to become a free market. As international banks expanded across Asia, small and medium-sized trading companies were able to break the financial ties with large trading companies.

The mid-nineteenth century was also a time of technological innovation in land transport, with the railway being a prime example. The introduction of steel rails and high-performance steam locomotives dramatically improved the speed and

[3]C. K. Harley emphasised that major means of transportation across the North Atlantic Ocean were replaced sail ships for steamships because of rapid improvement of steamships at the mid-nineteenth century, and this replacement promoted to decrease transportation costs drastically and contributed largely to change the world economic order. In contrast, D. C. North emphasised that the historical significance of the decline of transportation costs by steamships across the North Atlantic Ocean in the 1870s was misunderstood and overestimated by most previous studies. North emphasised that the decline of transportation cost across the North Atlantic Ocean in the eighteenth century and the first half of the nineteenth century had a larger impact on the world economy than that in the 1870s (North 1958; Harley 1971).

capacity of rail transportation during this period. The transportation cost of agricultural products and minerals dropped significantly due to the introduction of railways. Because most of the New World's soil was originally arable, the improvement of transportation technologies succeeded to make these soils the wealthy granaries of the world. In addition, the introduction of improved agricultural machinery also accelerated to transform most of the New World's soil to wealthy granaries of the world. Especially, improved large-scale agricultural machinery, including the agricultural equipment of the International Harvester Company, enabled fewer workers to be able to farm more land, resulting in lower costs. As a result, regions such as the Great Plains of the USA, the Prairies Provinces of Canada, and the Wheatbelt of Australia were rapidly transformed into granaries. The inexpensive crops supplied from the newly established granaries were transported to ports by rail, from which they were transhipped into steamships and exported to European countries. As a result, crop prices dropped radically in Europe, causing many European countries to introduce protective tariffs on local agriculture. However, imports of cheap agricultural products continued to rise, causing agricultural prices in Europe to fall. European agriculture (including the UK), which maintained free trade, suffered greatly. As a result, many people who had difficulty in farming moved to the New World, where they acquired new land and contributed to the further development of agriculture. At the same time, the capital required for railways and ports to be built in the New World was exported from the UK, marking the mid-nineteenth century as the beginning of a full-scale globalisation that would encompass much of the world.

The period from the 1870s to the eve of the First World War has been described in previous studies as a ‘period of imperialism’. Although the division of Africa by European countries can be considered the most appropriate example of imperialism, it is difficult to describe the economic features of this time with only this example. In previous research, issues such as the expansion of primary goods exports, the economic development of the USA, and the expansion of intra-Asian trade have not been primary issues for analysis. According to the classical studies of imperialism by Hobson and Lenin, through the export of the excess capital generated in the main European countries (including the UK) to developing countries, an environment was created that allowed the political and economic exploitation of developing countries by European countries in an institutional manner. The international banks also played a role in leading such ‘institutional exploitation’. In addition, according to research by the notable British Empire Historians, P. J. Cain and A. G. Hopkins, the expansion of the British Empire was achieved primarily by merchants, bankers, and landlords who had much interests in various kinds of financial services in London. The international banks also played an important role in financial service interests. It is believed that some European merchants dominated worldwide financial services, driving the development of the world economy (Cain and Hopkins 2016). However, according to Stone's research, of the total amount of capital exports of the UK from 1865 to 1914, 68% went to newly developed countries, such as the USA, Canada, Argentina, Australia, New Zealand, and South Africa, and countries neighbouring Europe such as Russia, whereas less than one-third of the total went to developing countries (Stone 1999). Furthermore, the international banks' capital exports generated large profits due to the rapid growth of international trade resulting from the development of railways and ports. The international banks were an infrastructure that facilitated the expansion of international trade, with a secondary role of sending the excess capital of developed countries to developing countries.

However, even at the end of the nineteenth century, Asia did not yet show remarkable economic development like that of the New World. A railway network was developed in the mid-nineteenth century in India, and facilities in Singapore and Hong Kong were being improved, but rapid economic growth had not yet been achieved. Rather, many Asian countries' exports were stagnant (except for Japan) due to the expansion of low-priced crop exports from the New World. Therefore, many of the international banks operating in Asia did not perform well. For example, the Oriental Bank Corporation, which had the largest scale of operations in Asia at the time, was liquidated in 1884, disrupting economic activities in Japan and many other parts of Asia. Moreover, the price of silver plunged worldwide during this period with many Asian countries adopting the silver standard, which was one of the primary reasons for the poor performance of international banks. Issues resulting from gold and silver transactions are very important when considering the business of international banks in Asia, and are analysed in various parts of this book.

The economic situation throughout Asia has changed significantly since the end of the nineteenth century. In addition to the fact that many Asian countries shifted from the silver to the gold exchange standard and were then able to eliminate the exchange risk associated with the fluctuating silver prices, primary product prices began to rise worldwide. The rise in commodity prices following the end of the Long Depression, which began in the 1870s, strongly supported the rapid expansion of commodity exports in Asian countries. Major factors include the increase in imports of primary products due to rapid economic development in the USA and the increase in gold production in South Africa, which led to a global increase in gold stocks for coinage. One of the major objectives of this book is to analyse how global economic expansion since the end of the nineteenth century has affected international banks operating in Asia.

As well known, intra-Asian trade grew rapidly in the period from the end of the nineteenth century to the beginning of the twentieth century, when primary commodity exports began to expand. The framework of intra-Asian trade proposed by Kaoru Sugihara discusses the promotion of primary product exports on the premise of the improvement of industrialisation and consumer life in Europe and the USA. This would enable the strengthening of mutual trade relations among Asian countries and regions. Immigration from southern China and India increased rapidly due to a labour shortage on Southeast Asian plantations, along with the expansion of primary commodity exports. The lower reaches of Chao Phraya River and Mekong River were developed, increasing the production of rice. Thus, rice trade among Asian countries became more active. Industrialisation with the cotton spinning industry as a leading sector in the Osaka–Kobe Region of Japan, and

Bombay in India, is also analysed from the perspective of the expansion of intra-Asian trade (Sugihara 1996). Such expansion of primary product exports from Asia and the resulting expansion of intra-Asian trade helped grow the business of international banks.

Therefore, at the beginning of the twentieth century, the management of the international banks, which covered all Asian regions, became extremely successful. During this period, the operating income and return on assets of international banks were rising. From the 1890s, the Deutsch-Asiatische Bank of Germany, the Yokohama Specie Bank of Japan, the International Banking Corporation of the USA, and the Russo-Chinese Bank of France were established consecutively. Furthermore, because colonial banks such as Banque de l'Indochine had expanded branches and agencies across Asia, the competition among international banks intensified.

In the late nineteenth and early twentieth centuries, railway construction was active in China. Financing railway constructions in China allowed the above-mentioned international banks to expand their businesses, in addition to allowing those countries intending to intensify their influence through international banks to expand their interest in China. Although The Hongkong and Shanghai Banking Corporation initially had a dominant position in this business, the dominance diminished by the mid-1890s, and by the early twentieth century, fierce competition existed between international banks. Many of these international banks operated with the intentions of the government of the country in which they were based. However, they did not always follow the intentions of the home government. The Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia and China were fierce competitors, although they were all international banks based in Britain.

In this book, the banks represented by the term international banks refer to those that were first established using Western capital (including Japan), with branches and agencies in the capital of their respective home country, in London, an international city with high-developed financial and monetary market, and in other major cities overseas. Banks that played a similar role include the Bank of Taiwan, the Bank of Chosen, and the Indian presidency banks (Bank of Bengal, Bank of Bombay, and Bank of Madras). However, since they were banks of colonies, they were also responsible for maintaining the monetary system and managing finances to support the rule of the colonial powers; hence, they are not viewed in the same way as the other international banks. Rather, it is more appropriate to refer to them as colonial banks. Regarding the Bank of Taiwan and the Bank of Chosen, Japanese economic history researchers do not agree on how to view these businesses. Although this book intentionally treats them as international banks, an analysis of the aspects of colonial banks has been added.

As mentioned earlier, the primary task of international banks is to make a profit from trade finance settlements between foreign countries, as well as from foreign exchange transactions. In other words, the primary functions of international banks are to finance and settle international transactions and to support various international economic transactions from the monetary and financial aspects. Therefore, this book defines these as international banks regardless of the region in which they operate. Besides colonial banks, others also operate like international banks. For example, Rothschild, a private banker specialising in high finance, played a major role in international banking. However, in this case, the international banks were defined as banks with branches and agencies around the world; thus, they are not in the same category. I believe that the definition of international banks itself must be corrected for future research.

This book aims to reveal the actual conditions of the management of the international banks operating in Asia based on the historical background described above. This is done by focusing on the analysis of the archival documents of each bank.

Suita, Japan Takeshi Nishimura

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Acknowledgements

The aim of this project is to present, in English, the findings published in Japanese under the title *Kokusai-Ginko to Ajia, 1870–1913* (International Banks in Asia, 1870–1913) by Dr. Shizuya Nishimura (Professor Emeritus for Hosei University), Dr. Motoaki Akagawa (Professor Emeritus for Keio University), and Dr. Toshio Suzuki (Professor Emeritus for Tohoku University). Research has been conducted primarily by Shizuya Nishimura and Toshio Suzuki, who have received funding from the Japan Society for the Promotion of Science since 2001, and who, in 2014, compiled their findings as a single collection of papers. Although many areas remain to be explored, the authors are proud of what has today become world-leading research on the activities of international banks in Asia. Later, Springer gave us the opportunity to present the results of this book in English; hence, we embarked on this project, which brought together four distinguished scholars from Japan and overseas for a work of collaboration. That it has taken such a long time to get the work published is due to the editors. We take this opportunity to apologise to everyone involved.

Various comments and advice following the publication of *International Banks in Asia, 1870–1913* have been presented and reflected upon by the respective contributors. In this respect, our main hope is that we have been able to contribute to advancing the research in this field, even if in a minor way. We seek comments and criticism from everyone.

Finally, this book incorporates research papers with high validity, which would have been difficult without the support and cooperation of the archives that store management-related written materials about international banks. Particularly, we received tremendous support with regard to reviewing the materials and the use of preserved images from Edwin Green at The Hongkong and Shanghai Banking Corporation Group Archives, and many other archivists. Furthermore, we also received much support and cooperation from the City of London, Guildhall Library Manuscripts Section (the management of historical materials was transferred to the London Metropolitan Archives), the Archives de BNP Paribas, Historical Institute of Deutsche Bank, Hamburg Institute of International Economics, Archives of the Federal Reserve Bank of New York, Shanghai Academy of Social Sciences, Columbia University Library, and many other historical museums and libraries. Due to page limitation, we cannot mention everyone's names in expressing our gratitude, but without the kindness of the people at these institutions, it would have been difficult to publish this book. Please accept our sincere gratitude for your support.

Professor Shizuya Nishimura passed away on 6 January 2014, prior to the publication of *International Banks in Asia, 1870–1913*. Indeed, there remains much work for us to do in this field. This project cannot be regarded as having answered all questions in the field. The younger generation must continue to do its best to address still-unanswered questions. Once again, We would like to take the opportunity to thank Prof. Nishimura's guidance. As an act of gratitude,We dedicate this book to Prof. Shizuya Nishimura.

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Chapter 1
Introduction: The Development of International Banking in Asia

Ayumu Sugawara and Takeshi Nishimura

Abstract To provide an understanding of financial globalisation from a historical viewpoint, this volume sheds light on international banking in Asia before the Second World War. International banking facilitated the relationship between Asian economic development and international financial centres. In this introductory chapter, Sect. 1 provides a summary of the history of intra-Asian trade. Section 2 conducts a literature review on the history of international banking. Section 3 reviews the chapters in this volume. Section 4 presents a historical perspective on the development of international banking in Asia derived from this volume. From the 1870s onward, intra-Asian trade grew faster than the trade of other regions or global trade. This provided plenty of opportunities for international banks in Asia. Until 1913, such banks were from industrialised nations such as the UK, France, Germany, and Japan. Although trade within Asia and the wide variety of nationalities of international banks providing trade finance in Asia were highly important, such finance heavily depended on pound sterling bills of exchange on London and the financial markets there. After the First World War, indigenous banks, especially from China, also started entry into international banking in Asia. However, British banks like HSBC kept their leadership in Asian international finance. This historical context is still reflected in current Asian international finance such as syndicated loans.

Keywords International banking · Asia · Intra-Asian trade · Trade finance · Bills of exchange

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To provide an understanding of financial globalisation from a historical point of view, this volume sheds light on international banking in Asia before the Second World War. International banking facilitated the relationship between Asian economic development and international financial centres. Focusing on the origins of a wide variety of banks not just from Europe but beyond Europe, such as the USA and Asia, particularly Japan and China, this book comprehensively explores competition and collaboration among international banks in Asia. It clarifies international banking's role of integrating the global market and the impact on both ends of the global economy—the international financial centres in the developed world and the developing economies in Asia. Economic development in Asia from the late nineteenth century to the 1930s as a part of the globalising economy mirrors Asia's current role as the global economic growth powerhouse.

This volume focuses on the two key similarities between Asia's past and present: intra-Asian relationships and the relationship between Asia and developed economies, namely Europe, the USA, and Japan. Getting into the heart of the relationships, i.e. finance, this volume presents a sophisticated and realistic image of the tangled network of international economic relations, distinguished from the conventional image of a one-sided advantage or disadvantage among involved nations.

This introductory chapter is structured as follows: Sect. 1 provides a summary of the history of the intra-Asian trade as a background for the development of international banking in the region. Section 2 conducts a literature review on the history of international banking. In Sect. 3, we review the chapters in this volume. Section 4 presents a historical perspective on the development of international banking in Asia derived from this volume.

1 The Growth of Intra-Asian Trade

During the second half of the nineteenth century, primarily after the 1870s, most regions in Asia were either colonised by European countries or placed under their authority. In East Asia, China and Japan were forced to open their ports to foreign merchants and conduct various types of trade transactions through unequal treaties. All the major countries in South-East Asia and South Asia, except Siam (now Thailand), became the colonies of European countries. Under such circumstances, Asia's foreign trade with European countries grew rapidly, and Asian economic and commercial transactions were rapidly integrated into the world economy, largely controlled by European countries. The annual average growth rate of Asian exports to Western countries between 1883 and 1913 was 3.8%, while imports stood at 4.2%, which was almost the same as the rate of world trade growth (Sugihara 1996, p. 13).

The concept of "intra-Asian trade" was first introduced by Kaoru Sugihara, and it means international trade within the Asian region. However, not only Sugihara but also other economic historians have recently widened the concept of intra-Asian trade and included local and regional trades within Mainland China and the Indian subcontinent.

Between 1883 and 1913, the annual rate of growth of intra-Asian trade was 5.5%, much higher than Asia's foreign trade with Western countries (Sugihara 1996, p. 14). It is widely known that during the second half of the nineteenth century, most Asian, African, and South American countries were colonised by European countries, and primary commodities were exported from these countries and manufactured goods were imported back from European countries. This form of trade was promoted and expanded rapidly in these three regions.

However, intra-regional trade of Africa and South America did not reach the same scale as Asia. In recent years, although some scholars, such as Hideaki Suzuki and Kazuo Kobayashi, have studied the development of intra-regional trade in Africa, the Middle East, and the Indian subcontinent around the mid-nineteenth century (Suzuki 2017; Kobayashi, K. 2019), the growth rate of intra-Asian trade was much higher.

Most previous studies on African and the South American economic history pointed out that European countries colonised these regions and transformed their economies through linkages restricted to only colonising European country. In other words, most regions in Africa and South America were forced to build trade links with only European countries that colonised them (i.e. European countries that acquired full or partial political control over their territory) and were not given opportunities to establish linkage effects with other regional economies. Sugihara raised an important question on why intra-Asian trade became possible as part of a rapid regional economic expansion in developing economies and analysed various documents and statistics to show important facts about intra-Asian trade. He succeeded in revising the interpretation of Asia's response to Western impact during the three decades before the First World War. Presently, not only economic historians who study Asian regions but also most economic historians worldwide have accepted his arguments.

The development of a consumer economy and the diversity in consumer behaviour in European countries during the second half of the nineteenth century accelerated primary commodity exports from Asia and forced most Asian countries to specialise in monoculture economies under the international division of labour, which was sought by European countries. Therefore, not only industrialisation but also consumer modernisation in European countries promoted exports and imports between Asia and these countries. Rapid industrialisation and changing consumer behaviours in European countries were one of the most important "engines of growth" that promoted Asia's foreign trade during this period.

However, the most important aspect of intra-Asian trade was the emergence of modern cotton industry in Japan and British India. The expansion of various economic and commercial transactions in cotton goods and raw cotton strongly stimulated the development of intra-Asian trade. The expansion of raw cotton exports from British India to Japan contributed towards raising raw cotton farmers' standard of living and the development of Japan's cotton spinning industry. The export of cotton products from British India and Japan to China transformed the traditional cotton industry in China, mainly in the Southern provinces, and forged stronger economic and commercial transactions in the local and regional markets of China and the world.

The expansion of cotton products and raw cotton trade helped to achieve international specialisation on an Asian scale and opened new market opportunities for labour, merchants, and farmers.

Rice merchants and farmers in South-East Asia, mainly in Burma (now Myanmar), Siam, and French Indochina, responded quickly to the new market opportunities. Rice farmers tried to increase yield from their own land, and rice merchants expanded rice trade not only in the intra-Asian region but also with European countries, especially Germany.

During the expansion of primary commodity exports from Asia and the establishment of the international division of labour in the world economy, the Asian international division of labour emerged. British India and Japan played a key role among industrial countries that exported manufactured goods and imported primary commodities. Besides, China, South-East Asia, and the other regions developed into monoculture countries that depend on exporting primary commodities and importing manufacture goods. The characteristic of intra-Asian trade was essentially an autonomous trade network where production, distribution, and consumption were controlled locally, that is, by Asians themselves, and not European countries. Nonetheless, the impact of European countries on the economic and commercial activities in Asia was essential for the expansion of intra-Asian trade in certain aspects, such as foreign trade financing operations, general insurances, and transportations by large steamships.

The expansion of primary commodity exports from Asia contributed not only internationally but also locally and to regional trade within intra-Asian trade. Especially, trade in rice and cotton goods was undertaken by Asian merchants and consumed by the general Asian public. Therefore, the expansion of intra-Asian trade was interpreted by the result of the final demand linkage effects of Asia's trade with European countries.

During the second half of the nineteenth century, European countries, especially Britain and France, exported their capital to Asia for building railways networks, modern ports, as well as economic and military infrastructure. It is certain that intra-Asian trade would not have emerged or expanded without this infrastructure. Raw cotton exports from British India to Japan were conducted through the rail network and exported by steamships from the modern port of Bombay to Japan. Although the proportion of junk trade in the intra-Asian region was maintained and contributed to the development of various local and regional distributions in Asia, steamships and the infrastructure developed by European countries played an important role in the expansion of intra-Asian trade.

In the 1890s and the 1900s, most of the countries and colonies in Asia decided to adopt the gold standard as the monetary system, mainly the gold-exchange standard. Traditionally, until the end of the nineteenth century, a large amount of silver was circulated and used as a major medium of exchange across Asia. After silver prices began to depreciate in the 1870s, the fluctuations in exchange rates between the Asian countries, colonies that adopted the silver standard, and European countries with the gold standard had a negative impact on capital movement between Asian countries, other colonies, and European countries. Therefore, European countries transformed the monetary systems of their colonies from the silver standard to the gold standard. As for Japan and Siam, European countries came under pressure to transform their monetary systems to the gold standard. As a result, the pound sterling emerged as the "key currency" in Asia, and the penetration of the pound sterling as the most stable medium of exchange in Asia rapidly expanded intra-Asian trade. The emergence of the key currency also contributed to the development of international banks in Asia.

In recent years, intra-Asian trade studies have been established, and many distinguished researches on intra-Asian trade have been presented worldwide. Furthermore, several Japanese economic historians, such as Ryota Ishikawa, Naoto Kagotani, and Kazuko Furuta, have focused on analysing the impact of Chinese merchants' economic and commercial activities in the development of intra-Asian trade (Ishikawa 2016; Kagotani 2000; Furuta 2000). Similarly, Japanese economic historians such as Takashi Oishi have studied the characteristics of Indian merchants' economic and commercial activities in expanding intra-Asian trade networks (Oishi 2016). Several other young economic historians from not only Japan but also other Asian countries are pursuing intra-Asian trade studies. These studies are not yet complete and are expected to make progress.

2 The Development of International Banking

2.1 The Literature on the History of International Banking

The literature on the history of international banking, which is centred on British overseas banks, can be roughly divided into three groups. The first group covers the history of British overseas banks as a whole. The second comprises individual histories of overseas banks. The third performs an international comparison of banks, based on their country of origin.

The first group in this literature—British overseas banks considered as a whole—was the first to be studied, with the publication of Baster (1929) and Baster (1935). Baster termed the British overseas banks that conducted their business in the British Empire as imperial banks and those doing business in independent countries were called international banks. Baster used Treasury and Foreign Office papers available at that time. Geographically, his two books spanned the world. However, owing to limited availability of archival material, especially on individual banks, his explanations mainly focused on the establishment process of each bank and its background, along with bonds issuance of some important host countries, such as Persia and China. Because of the archival limitation, Baster did not analyse detailed banking operations and financial performances of banks by looking at individual banks' internal accounting data. After Baster's foray, it took another 60 years before progress was made in the research on the first group by Jones (1993); there were two enabling factors. The first was the development of the theory on multinational corporations in the 1960s and, especially, the theory on multinational banks in the 1980s. The second was the progress in cataloguing and opening of archives of British overseas banks, such as the Hongkong and Shanghai Banking Corporation (hereafter the Hongkong Bank, or HSBC), in the 1980s. Jones (1993) applied the concept of multinational bank to the 160-year history of British overseas banks as a whole, from 1830 to 1990. His approach involved clarifying the competitive advantages of British overseas banks, especially their presence in host countries. By comprehensively exploiting the newly opened archives of a few dozens of British overseas banks, Jones (1993) clarified issues related to operations, organisations, and personnel of these banks.

The second group of research, involving history of individual banks, began with the publication of individual official or quasi-official histories of British overseas banks in the 1950s and 1960s. Most of these marked the centenary of their establishment. However, in the early stage of research, the authors did not systematically use accounting data or archives; further, there was no theory that could be applied. King (1987–1991), in his work on the Hongkong Bank, and Jones (1986–1987), in his research on the Imperial Bank of Persia and the British Bank of the Middle East, improved the level of research. All these studies were based on the HSBC group archives. After these studies, Muirehead and Green's (1996) work on the Chartered Mercantile Bank of India, London, and China, and Green and Kinsey's (1999) work on the Mercantile Bank of India which was the successor of the Chartered Mercantile Bank continued the research on individual banks based on archives of better quality. For instance, because the archives of both the Chartered Mercantile and Mercantile Banks were well preserved, Green and Kinsey (1999) provide long-term and systematic business data on profits by operations and branches. More recently, Roberts and Kynaston's (2015) contemporary history of the Hongkong Bank, from 1980 to 2014, was also based on archival materials.

The third group of research, involving international comparisons, was pioneered also by Jones. Jones (1990) compares British, German, Japanese, Swiss, American, and Chinese overseas banks by using the concept of multinational bank. Although Jones again applied the concept of competitive advantage to British overseas banks, most chapters of the book did not use internal data, such as branch balance sheets. However, Tamaki's chapter (Tamaki 1990) in Jones (1990) focused on the internal flow of funds between the branches of the Yokohama Specie Bank from Japan before 1930. Another pioneering work of international comparison on international banking history was Cameron and Bovykin (1990). The book used a wider perspective in making international comparisons and included a comparison of national banking systems. In international finance, Cameron and Bovykin (1990) paid attention to (i) long-term foreign investments and (ii) foreign direct investments, as well as the relationship between banking and industry for such investments.

After these studies, Checkland et al. (1994) made a comparison of international banking by focusing on the Asia–Pacific region. In Checkland et al. (1994), Nishimura clarified the internal flow of funds between the branches of the Hongkong Bank in 1913, based on the archives of the bank. In the same book, Ishii provided new values for the flow of funds within the Yokohama Specie Bank before 1913 through a critique of Tamaki (1990). Then, Nishimura et al. (2012) conducted a more systematic comparison between British, French, and Japanese banks in Asia. Nishimura et al.

(2012) emphasised the role of the London branch of each overseas bank, as was the case in Tamaki (1990), Nishimura (1994), and Ishii (1994), as well as the overall role of the London financial market in the international banking system (Michie 2012; Mollan 2012). In the same book, Kasuya (2012) provided a new perspective on the flow of funds within the Yokohama Specie Bank in the interwar period. The growth in the third group of research has continued with Bonin et al. (2015) and Bonin and Valerio (2016). Bonin's approach is explained in detail in the following sub-section.

Besides these three research groups, there are two other approaches in literature. The first relates to the development of the research on French international banking by focusing on the experience of Banque de l'Indochine. Based on the archives of Banque de l'Indochine, Meuleau (1990) and Gonjo (1993) clarified the long-term history of the bank, from its establishment in 1875 until 1975 and 1939, respectively. The other contribution was that of Bonin, who in his studies on Banque de l'Indochine (Bonin 1994, 2012, 2015,[1] 2016[2]), successfully tried to provide the model of French international banking. The second approach, which focused on the impact of foreign banks on the development of the Chinese financial system before Second World War, is also important. Prominent contributions include Cheng (2003) and Ji (2003).

2.2 *Concepts: Multinational Bank, International Bank, and Imperial Bank*

In the literature on the history of international banking, the conceptual distinction between multinational banks, international banks, and imperial banks is especially interesting. According to Jones (1990,[3] 1992, 1993), a multinational bank is a bank that owns and controls branches and affiliates in more than one country. On the other hand, the services of an international bank include foreign trade finance and lending to governments and corporations in foreign countries. Therefore, an international bank is a bank conducting foreign trade finance and lending to foreign residents. Of course, a multinational bank can also conduct international banking operations. Thus, regarding a bank as multinational or international depends on the researcher's purpose.

Jones' research is centred on the concept of multinational bank. The concept of multinational bank was derived from the concept of multinational corporation. Therefore, Jones' approach followed the orthodox theory proposed in multinational corporation research (e.g. Casson 1987; Dunning 1993). The theory is based on two key questions. The first question is why a corporation (or bank) becomes a

[1]Introduction: issues regarding Asian imperial banking; French overseas banking as an imperial system: A background for Asian developments. In Bonin et al. (2015).

[2]Concluding Remarks: Colonial Banking, Imperial Banking, Overseas Banking, Imperialist Banking: Convergences, Osmoses, and Differentiation, in Bonin and Valério (2016).

[3]pp. 1–13 Banks as Multinationals; pp. 30–61 Competitive Advantages in British Multinational Banking since 1890.

multinational corporation, and the second is how a corporation (or bank) can become a multinational corporation. The basic answer to the first question is provided by the internalisation theory. The answer to the second question lies in the concept of ownership advantage, which can be replaced by the term competitive advantage. The second question asks about the capability of a corporation or a bank to become a multinational; this is because the orthodox theory of multinationals expects it to have an advantage over the host country's indigenous firms if it is to survive as a subsidiary. In identifying the ownership advantage or competitive advantage of British overseas banks to answer the second question on British overseas banks as multinational banks, Jones applied Porter's Diamond theory (Porter 1990). Regarding the typology of organisation of British overseas banks, Jones regarded them as free-standing companies; this was suggested as a new type of foreign direct investment that British firms, in particular, preferred before WWI (Wilkins 1988; Wilkins and Schröter 1996). As a result, Jones successfully situated British overseas banks in the context of the research on multinationals and the wider context of business history.

Other than Jones, Shizuya Nishimura (Nishimura et al. 2012; Nishimura et al. 2014) has focused on the concept of international banking. Nishimura's definition of international banking is the same as that of Jones, that is, he considers that the core of international banking is trade finance and lending to foreign residents; further, he emphasises the function of international banking as providing the infrastructure in the world economy for providing settlement service for international transactions. Nishimura focuses on the growth of the world economy under the international gold standard before the First World War and identifies foreign trade and trade finance as the engines of the world economic growth. In that era, the pre-WWI London financial market played the central role within the global settlement infrastructure. With this vision, Nishimura has tried to integrate international financial history with international banking history. More recently, based on the case of Singapore in the middle of the nineteenth century, Atsushi Kobayashi (Kobayashi, A. 2019) clarifies international bank's role in settlements both of European-Asian trade and of intra-Asian trade.

In contrast to Jones and Nishimura, both of whom adopted Anglo-centric approach, Hubert Bonin (e.g. Bonin at al. 2015; Bonin and Valério 2016) draws on the development of empirical research on Banque de l'Indochine of France to appeal to the concept of imperial bank, which covers not just the French experience, but also the Russian and Japanese experiences in Asia. Bonin's concept of imperial bank refers to a bank created by colonial powers (Western European nations, the USA, Russia, and Japan) and conducting operations in multiple colonies or treaty ports. In Bonin's research, the functions of an imperial bank are broad-based and encompass the implementation of colonial rule from a metropolitan viewpoint, as well as facilitating the modernisation of colonised areas or treaty ports regions. Thus, the operations of Bonin's imperial bank include foreign trade finance and lending to host region's business, as well as note issues as the de facto central bank in colonies. Bonin's approach can be regarded as situating the histories of the banks set up by colonial powers in the context of the wider history of modern political economy.

Bonin's use of the term "imperial" looks classical, but actually it sets itself apart from old-fashioned Leninist-style imperialism, which regarded a colony as an exclusive "hunting ground" of each colonial power; in contrast, the key features of Bonin's imperial concept are openness and a cosmopolitan atmosphere in each colony and treaty port, especially with regard to business. He found these characteristics in the newly explored archives in Banque de l'Indochine and emphasised them. With the new idea, he brought about a renaissance in the concept of "imperial". We can find a part of the result in Chap. 8 of the book.

3 The Chapters

Cassis' chapter (Chap. 2) provides a wider background in terms of time, space, and concepts for the following chapters. International banking services form a part of international finance as a whole. Historically, a distinction between short-term and long-term capital movements is crucial. Although the following chapters mainly focus on short-term capital movements such as trade finance, the two financial flows are strongly interconnected. Grasping the whole picture of capital movements is necessary to understand the role played by international banking in the development of regional and global economies. Therefore, Cassis establishes a viewpoint on historical comparisons of financial centres; in his fascinating words, "Capitals of Capital". Around the turn of the previous century, Capitals of Capital were concentrated in Europe which had dominant sources of long-term capital exports, not just in Britain, but France, Germany, Belgium, the Netherlands, and Switzerland, as well. Except for Switzerland, all the countries were colonial powers and had footholds in businesses and major international banks in Asia, such as Hongkong Bank, Chartered Bank of India, Australia, and China, Banque de l'Indochine, Deutsche-Asiatische Bank, and the Netherlands Trading Society, respectively. Most of them will be dealt within the following chapters. Cassis pays attention not just to capital exports but also to capital imports. First and foremost, New York emerged as an international financial centre based on American capital imports. Yokohama in Japan was also a financial centre in a capital importing country; however, its main function was regarding foreign trade finance. Both USA and Japan sent their international banks in Asia such as International Banking Corporation and Yokohama Specie Bank. Cassis also mentioned that primarily financial centres in Asian countries or colonies were based on foreign trade finance, rather than the issuance and distribution of bonds. Here, too, distinguishing the two types of capital movements is useful. Before the First World War, Britain was dominant in long-term capital exports to Asia, but compared with foreign trade finance, particularly in dealing with bills of exchange, it faced tougher competition than in the latter business, for example, for China. In foreign trade finance, at that time, London was the pre-eminent global centre, and not only banks from other areas of Britain, but also from France, Germany, USA, and Japan, depended on the London financial centre, primarily due to the thickness, liquidity, and sensitiveness of the markets. This aspect is scrutinised in Suzuki's chapter (Chap. 5).

Historically, an economic event that had a huge impact on the Asian financial system in the 1870s was the sudden fall in the price of silver compared to gold. As discussed in Chap. 3 (Nishimura), until the 1870s, all independent countries and colonies in Asia followed the silver standard. The responses of the international banks operating there regarding the fall in the silver price have been dealt within Chap. 4 (Kitabayashi). Chapter 3 (Nishimura), on the other hand, overviews the governments' response to the fall in the silver price for understanding the background of the international banking in Asia in the late nineteenth century. This chapter covers the monetary system in most Asian colonies and independent countries, except Japan. They included British India (hereafter, India), China, Hong Kong, the Straits Settlements, the Dutch East Indies, Siam, French Indochina, and the Philippines. Not only physically but also characteristically, these regions showed a wide diversity. Politically, they included colonies as well as independent countries. The metropolitan states of the former included Britain (India, Hong Kong, and the Straits Settlements), France, the Netherlands, Spain (the Philippines before 1898), and the USA (the Philippines after 1898), and the latter included China and Siam. All of them, along with Japan, had to select a monetary system due to the rapid fall in the silver price. Consequently, some of them (India, the Straits Settlements, the Dutch East Indies, Siam, and the Philippines) switched from the silver standard to the gold standard, while two of the rest (China and Hong Kong) stayed with the silver standard. The French Indochina also abandoned the silver standard but went for a floating exchange rate not for the gold standard. Japan joined the first group by moving from the silver standard to the gold standard.[4] However, the developments in the monetary system of each region followed a divergent path.

Furthermore, the gold standard was also not the same for all. After the 1870s, the European and North American countries adopted the gold standard having gold coins in circulation. On the other hand, colonies and independent countries in Asia opted for the so-called gold-exchange standard. Under the gold-exchange standard, gold coins were not circulated domestically, and the value of the money was fixed based on the money in a gold "coin" standard country like the UK. In case of the gold-exchange standard, gold redemption was made through a standard currency such

[4]The key developments in Japan's monetary systems had been as follows: (a) After the opening of its ports in 1859 until 1871, Japan switched from a gold coin standard to bimetallism system. (b) From 1871 to 1874, the country opted for a short-lived gold standard. (c) From 1874 to 1897, it shifted to the silver standard. (d) From 1897 to 1917, Japan again adopted the gold standard (Yamamoto 1994, p. 11, pp. 63–65, 75, 80–81, 94, 114, p. 323; Kojima 1981, pp. 25–27, 264–265). Under such systems, actual circulated currencies were: From 1859 to 1871, the main currencies in circulation in Japan were gold and silver coins. From 1871 to 1884, mainly government-issued paper notes were used. After 1885, the bank notes issued by the Bank of Japan were circulated (The Bank of Japan, the first central bank in Asia, was established in 1882). The central bank's notes were redeemed into silver from 1885 to 1897 and into gold from 1897 to 1917 (Yamamoto 1994, pp. 75, 88, 96–100, 113; Kojima 1981, p. 291). During 1871 to 1897, just for the settlement of the foreign trade, Japan minted its own silver dollar, which was an imitation of the Mexican dollar, and was called the "trade dollar". In 1878, the trade dollars were permitted to circulate domestically also (Yamamoto 1994, pp. 87, 161–162, 179, 224.). After 1904, Japan kept more than half of its external reserves mainly in London (Kojima 1981, pp. 67–69, 360–362).

as pound sterling. For instance, Indian rupees were converted into pounds, and then pounds were redeemed into gold. Therefore, the external reserves of a gold-exchange standard country were deposited in a country providing the standard currency. Thus, India's external reserves were kept in Britain in the early twentieth century.

Actually, the British colonies in Asia used pound sterling as their standard currency to fix their exchange rates and kept their external reserves, which consisted of gold and pound sterling assets, in London. The Dutch East Indies used the Dutch guilder as its standard currency and kept its reserves in Amsterdam, whereas the Philippines used the US dollar as its standard currency and made New York the reserve centre. Siam, an independent country in Asia, also used pound sterling as its standard currency and kept reserves in London. Another independent country, Japan, adopted the gold standard, and put more than half of its reserves consisting of gold and pound sterling assets in London. Thus, Japan's gold standard was also a kind of gold-exchange standard. As we can see from above cases, the gold-exchange standard depended on international financial centres, which were mentioned in Chap. 2 (Cassis), and they contributed to strengthen the centres' position.

However, the gold-exchange standard system was introduced not just in consideration of the interests of the metropolitan countries; it also took care of the interests of the Asian colonies and independent countries. With the fall in the price of silver compared to gold, what the Asian colonies and independent countries needed the most was stabilisation in their exchange rates with regard to the currencies of European and North American gold standard countries. Second, they wanted to keep their traditional settlement way within their intra-Asian trade based on silver. Therefore, against the occasional intentions of the metropolitan countries such as Britain and the Netherlands, to introduce gold coins in their colonies, the gold standard without the circulation of gold coins was a desirable system for Asian economy. The main reasons for Asian countries' persistent preference for silver were their customs, very high price of gold coins in their daily transactions, and their trade with silver standard areas such as China and Hong Kong.

In the gold-exchange standard colonies and countries such as India, the Straits Settlements, the Dutch East Indies, the Philippines, and Siam, silver coins were in actual circulation. However, in all colonies and independent countries, silver coins were token coins whose nominal value was higher than their metallic value. Thus, the following remark by the economist John Maynard Keynes was true not just for India but also for other four colonies and the independent countries attached with the gold-exchange standard: "In existing conditions the rupee, being a token coin, is virtually a note printed in silver" (Keynes 1913, p. 37). Indian and Chinese merchants especially preferred silver to gold. Both of them had wide networks all over Asia. Within intra-Asian trade, their networks were so powerful that they played an influential role in the choice of daily circulated currencies. Chapter 12 (Shiroyama) also discusses the network of Chinese merchants in South-East Asia.

Kitabayashi's chapter (Chap. 4) provides an overview of the development of British international banking in Asia from the 1850s to the 1910s, including the Great War period. Even though trading with Asia had been attractive for European countries from the age of navigation in the late fifteenth century and Britain finally captured the lion's share of Asian trade based on the colonisation of India in the late eighteenth century, from the British banking perspective, Asia was set aside for British international banks having Royal Charters, which protected their shareholders through the privilege of limited liability. The reasons for this interesting preservation were the big figures of the English East India Company which monopolised not just foreign trade in India, but also finance for this trade, and strongly resisted the granting of Royal Charters to banks entering the foreign exchange business relating to India's trade. However, Oriental Bank obtained a Royal Charter for its banking business in Asia in 1851 and was becoming a giant international bank. With Oriental Bank as the beginning, successive rises, falls, and changes in the Asian market became an interesting story. With changes in market leaders such as Oriental Bank, Chartered Mercantile Bank of India, London and China, and Hongkong Bank, the chief battleground also changed from India to China. Until the 1860s, India, especially Bombay, was the main incubator of international banks in Asia; however, the crash of the Bombay bubble in 1866 ended this trend. Experiencing a severe banking crisis, the Government of India prohibited India-based banks from international financial services. The regulatory gap between the two British colonies, India and Hong Kong, brought an advantage to Hongkong Bank, which had its headquarters in Hong Kong and cultivated primarily Chinese markets. Kitabayashi stated that being based in Hong Kong was the unique advantage of Hongkong Bank, which eventually made it the largest financial institution in China. Hongkong Bank could connect Chinese financial centres to London, as well as to other Asian centres, whereas Indian headquartered banks could not, even though they also had potentially advantageous locations, due to Government regulations.

The decline in silver prices from the 1870s onwards was another important reason for the significant rise and fall of market leaders. Here, too, Hongkong Bank's location worked well. With plenty of silver deposits, mainly concentrated in China, Hongkong Bank conducted its famous "Even Keel" policy; in other words, squaring their silver currency assets and liabilities while expanding their business in Asia. Both Oriental Bank and Chartered Mercantile Bank failed by exposing their silver assets to the depreciating risk against liabilities in gold and gold-based currency, that is, pound sterling. Chartered Bank of India, Australia, and China managed to square its silver assets and liabilities in Asia; but contrary to Hongkong Bank, it did so by shrinking its Asian business equalising with its smaller silver funds.

Suzuki's chapter (Chap. 5) studies in depth, the functions of the pre-eminent global financial centre of the time, London, through the exhaustive use of archival, contemporary, and authorised secondary sources altogether. Highly specialised division of labour was a well-known feature of the London financial market, especially in the case of clearing banks, accepting houses (merchant bankers), bill brokers, discount houses, and British overseas and foreign banks. Centring on British overseas banks, since a part of them were functioning in Asia, Suzuki carefully reconstructs business relationships between British overseas banks and London clearing banks, as well as the overseas banks and discount houses that formed the core of the London financial centre in terms of the short-term capital movements. The essence of the advantage of the London discount market at the time was, in a current corporate financial sense, the capability to accelerate the velocity of the cash conversion cycle (CCC). The higher the turnover of capital, the higher the profits are. For British overseas banks in Asia, as their alternative name, Eastern exchange banks, demonstrates, the key to their business was converting bills of exchange that they bought and held into cash (not as physical moneys, but rather, their current account numbers in London clearing banks) as early as possible for their next transactions. However, as in the case of vehicles, higher speed without safety backups is not appropriate for practical use. The city machine had this. On the one hand, gold standard established the macro-level framework, while on the other hand, micro-level devices such as acceptances, endorsements, or credit lines were provided by financial institutions of the City of London. Drawing a rough picture of the complete scenario as follows: Merchant bankers or clearing banks provided acceptance for export bills of exchange in Asia, which was denominated in pound sterling. Then, Asian branches of overseas banks or foreign banks bought the bills and sent them to their London headquarters (HQ) or branches. The London HQ or branches sold the bills to discount houses to receive cash early in their London correspondence accounts with merchant or clearing banks. Returning to merchant and clearing banks, such accounts had overdraft facilities under certain credit lines and worked as windows for banks doing business abroad to get sterling funds for selling drafts from London in their Asian branches. Behind the scenes, the role of bankers and bill brokers was indispensable in terms of risk assessments and management.

Suzuki's picture of the London discount market is complemented by a focus on an eye-catching character, HSBC, in Siu's chapter (Chap. 6). As mentioned in Kitabayashi's chapter, HSBC's sense of locality brought plenty of silver currency deposits in China. In addition to these liabilities, the London office assets in the early 1880s clarified its main focus on China and Japan and successful expansion to these areas in foreign trade finance. As HSBC came to the fore of British international banking in Asia from the 1870s, a major realignment took place in the battleground. Siu traces the development of the "industrial organisation" in Asian international banking around the turn of the twentieth century through her findings on cartel agreements on exchange businesses of major banks. Particularly, the agreements of 1887 were concluded by British international banks themselves, but in 1909, an extended agreement covered both British and non-British international banks. From these findings, Siu deduces that the presence of non-British banks was rising during the 1890s and 1900s, which is consistent with the successive entry of major French, German, Japanese, Russian (with France), and American international banks into Asian markets. Although the variety of participating banks increased, London still remained the venue of the agreements. Siu's sharp focus on HSBC's London business finally takes us to the wider perspective of the following parts of non-British international banking in Asia.

France, as the second colonial power before the Second World War, was the first and continuous challenger to British dominance in international banking in Asia, as well as on other global issues. France's contention with Britain made the perspectives of historical researchers more colourful. Yago's and Bonin's chapters (Chaps. 7 and

8) on French international banking successfully work together to suggest such fresh perspectives.

While establishing an overview of the history of French international banking in Asia, Yago's chapter (Chap. 7) raises methodological questions regarding the history of international banking based on French cases, but also applicable generally. Empirically, first, he deals with the relationship between the Paris financial centre and French international banks and then compares the important types of banks, such as Comptoir (later, Comptoir National) d'Escompte de Paris, the Banque de l'Indochine, and the Russo-Chinese Bank. Finally, he clarifies the strategical development of French banks from trade finance-oriented functions, to note issues and industrial loans and investments, that is, "imperial banking", which is a concept invented by Bonin and Yago, derived from French banking studies. Methodologically, Yago states fascinating ideas such as "chicken or egg", which describes the origin of competitiveness, markets institutions or banks, "trade finance versus investments", and "strength or weakness". With each idea, in the beginning, he states a clear dichotomy, but later attempts to provide a comprehensive perspective based on richer and wider varieties of historical realities experienced by French banks. For example, in the "trade finance versus investments" question, in the heyday of French long-term investments in Russia from the mid-1890s to the end of Russo-Japanese War (1904–05), busy bond issues in Paris markets attracted foreign banks to set up branches for trade finance based on French franc bills in Paris. At this time, the Russo-Chinese Bank emerged as a serious threat to HSBC in its dominance in Chinese loan issues, while on the other side, in trade finance, the Russo-Chinese utilised franc bills on Paris rather than sterling bills on London. At the base of the competitiveness in Parisian capital markets, an Europe-wide network of hautes banques, who had international origins and dominated the ownership of international banks from France, had a different attitude from that of British merchant banks, which were usually not key shareholders in joint stock international banks. Another example, the idea of "strong or weak", or more precisely, "beyond strong or weak", is also thought-provoking. First of all, as a matter of fact, the financial performance of French international banks was not inferior to their British counterparts in Asia. For instance, on the one hand, before the First World War, HSBC's ROE was about 43.0%, and its ROA, 1.9% (annual average of 1897–1913. Data from Jones 1993, pp. 444–445). On the other hand, Banque de l'Indochine's ROE was about 73.1%, and its ROA, 3.1% (annual average of 1897–1913. Data from Gonjo 1993, p. 229, pp. 327–375). Of course, in China and Hong Kong, HSBC was the pre-eminent financial institution, but in Asia as a whole, there was room for various international banks, and merely focusing on China and Hong Kong markets may have biased historical researchers. Even in China, the positions of French and British banks could not have been put in a naive frame of "ranking". The story is told in detail in Bonin's chapter (Chap. 8). Again, in foreign trade finance, British international banks, especially HSBC, were dominant in Asia, but under these market conditions, French banks successfully changed their direction to loans and investment. In a slightly longer-term perspective, this is not the case just for France. Even for British banks themselves, such changes were required after the First World War. The French case was a precedent of the general trend.

Bonin's chapter (Chap. 8) sharply focuses on Hankow, a treaty port city in China, and the branch of the Banque de l'Indochine (hereafter BIC) there. Hankow was the trading centre of the upper Yangtze River, and its main commodity for export was tea. France got a concession there in 1896, and the BIC set up its branch there in 1902. As Bonin demonstrated, Hankow had a concentration of most major international banks, such as HSBC, BIC, Russo-Chinese Bank, Yokohama Specie Bank, Deutsch-Asiatische Bank, and Chartered Bank of India, Australia, and China, as well as International Banking Corporation, and here, too, HSBC was the largest. Therefore, the port city was a microcosm of international banking in Asia. In Hankow, BIC's mission was to help French firms, and its main competitor was HSBC. However, in reality, Hankow's business scenery was not as simple as national teams' competition, because, based on newly opened archival materials, Bonin reveals the clientele of BIC. This is a significant development, since in banking history in general, revealing bank clientele tends to be a missing link. In 1912, German trading firms as a group were the largest borrowers, followed by a Belgian and a Japanese firms. The borrowing of three French firms combined was smaller than each of the firms, respectively. During the First World War, due to the retreat of German trading firms from China, French firms as a group eventually become the largest customers for BIC; however, firms from Italy, Japan, Belgium, and Britain also borrowed heavily from BIC. Of course, as per Bonin, HSBC had a lot of French firms as customers. In treaty ports, the banking business was conducted in a cosmopolitan atmosphere, for example, in terms of clientele as well as their staff's backgrounds, as told in Yago's chapter (Chap. 7). Further, not just in Asian treaty ports, but also in Europe, an international network organised by a Paris haute banque, Neuflize, was functional. In the case of a Belgian client, J. K. Panoff, Neuflize arranged the marketing of minerals exported from Hankow by Panoff. Back to Hankow, alongside HSBC, Russo-Chinese Bank was a main competitor for BIC, even though it was regarded as a partly French concern.

Akagawa's chapter (Chap. 9) scrutinises a German bank, relatively famous in name, but relatively unknown in details of business, namely Deutsch-Asiatische Bank (hereafter DAB). Based on newly explored archival materials, Akagawa reveals each branch and HQ's accounts of DAB in 1906. Through his detailed data, the business of DAB is now comparable with other international banks, particularly British ones. Being different from the literature on DAB, Akagawa focuses on its foreign trade finance business rather than bond issuance. Akagawa asserts that in DAB's assets, bills receivable accounted for 40% of the total; thus, it was regarded as an exchange bank. In 1913, for example, HSBC's bills receivable as a part of its assets was 36% (Data from Nishimura 1994, p. 40), and for Chartered Bank of India, Australia, and China, in the same year the ratio was 25%, although it declined from 43% in 1890 (Data from Nishimura 2014, p. 805; Nishimura et al. 2014). In terms of funds distribution (debts and capital) in 1906, on the one hand, the Shanghai headquarters were the largest (41.8%), followed by Berlin (10.1%) and Calcutta (10.0%). On the other hand, in terms of assets in 1906, the Shanghai headquarters were the largest (27.6%), followed by Hong Kong (10.9%) and Tientsin (10.4%). Regarding profitability in 1906, among 14 offices, seven earned profits, while the other seven suffered losses.

The large profit earners were Shanghai headquarters, Berlin, and Tingtao. DAB's total profitability was 3.5% in ROA in 1906, which was better than HSBC's 1.8% in the same year (HSBC's data from Jones 1993, p. 444). The profits of DAB were mainly derived from foreign exchange (1.39 m Shanghai taels to 1.40 m total net profits). Therefore, regarding the role of German imperialism in China, while taking a balanced view, Akawaga emphasises on the role of DAB in providing foreign trade services to German concerns, partly because, even in Tingtao, the German settlement, exchange profits were far larger than interest profits. Akagawa's data sheds light on another interesting issue of international financial history, namely key currency competition before the First World War. DAB's acceptances were conducted only by Berlin and Hamburg branches. Thus, they were denominated in the German mark. However, the amount of acceptances by German branches accounted for only 3.9% of DAB's total bills receivable. From this fact and other secondary sources, we can deduct that DAB's offices in Asia mainly arranged the bills for their foreign trade finance in London and sent the sterling bills to their correspondences in London, which were Union of London and Smiths Bank, N.M. Rothschild & Sons, Deutsche Bank London Agency, and Direction der Disconto-Gessellschaft's London branch . The latter two banks were the largest shareholders of DBA in the beginning, and Frankfurt Rothschild also owned a large number of DBA shares. If more than 95% of DAB's bills in Asia were denominated in pound sterling, the German mark would be unable to challenge the sterling, at least in the part of Asia that was east from India. Rather, also taking into account that DAB cooperated closely with HSBC in the issuance of Chinese government bonds, DAB was assumed to enjoy British economic hegemony in Asia before the First World War.

At some point between the beginning of the First World War and the end of the Second World War, the hegemony of the world economy shifted from Britain to the USA. Key currency and international banking are crucial as a base of economic hegemony. Considering the leadership of large American banks in international banking after the Second World War, it is a fascinating question to ask when and how the leadership of international banking in Asia moved from the UK to the USA. However, not so much literature exists on American international banking in Asia before the Second World War due to a very limited access to archival documents of US banks. Therefore, we do not have enough information on details of the US bank business in Asia. Sugawara's chapter (Chap. 10) tries to fill the gap although only partially, based on newly explored archival documents. Chapter 10 deals with the business details of four branches of the International Banking Corporation (hereafter IBC) which was the largest overseas bank of the USA from the early twentieth century to the 1930s. The branches are London, Beijing, Tianjin, and Guangzhou.

From the late eighteenth century to the 1880s, for China the USA was one of the largest export destinations following Britain and its empire especially Hong Kong. However, the US–China trade was financed not in the USA, but in London by the bills on the city. Such American financial dependence on London came from three reasons: the first was a banking regulation which prohibited US national banks from establishing foreign branches, the second was the absence of a bill discount market in New York, and the last was also the absence of a central bank which could accommodate the demand and supply of funds in such bill discount market. The Federal Reserve Act of 1913 solved the three problems. As a result, the National City Bank (hereafter NCB) which was a largest national bank at that time established foreign branches mainly in Caribbean islands and in Latin America and acquired IBC in 1915.

According to the literature and the chapter, IBC imitated British overseas banks as its business model. Among the Hongkong Bank and the Chartered Bank, the two largest British banks in Asia, IBC chose the latter as its model. The former adopted an integrated model of foreign trade finance and bond issues, and the latter's model was a focus on trade finance. In 1926, IBC was mostly absorbed by NCB, its parent bank. At that time, the asset of IBC was the largest within its history but compared with that of the Hongkong Bank it accounted for 33% of the latter. Because of the lack of key information, it is still difficult to evaluate the performance of IBC/NCB in the interwar Asia. For example, we have no data on profits of IBC/NCB in Asia as a whole. However, we can say that regarding survival IBC/NCB's performance in Asia was well enough.

It is also very difficult to directly compare Hongkong Bank and NCB. Both IBC and Hongkong Bank were overseas bank, thus also both the US market for IBC and UK market for Hongkong Bank were not so large. On the other hand, NCB was basically a US domestic bank and had a dominant position in US banking industry. Therefore, a direct comparison of NCB and Hongkong Bank means a comparison between a US domestic bank and an overseas bank based on Asia. Seeing asset sizes of NCB and Hongkong Bank in 1927, when NCB mostly complete absorbing of IBC's assets, the former was £316.3 million and the latter was £73.6 million (Cleveland and Huertas 1985, p. 126; King 1988b, p. 177). However, most of the assets of NCB were consisted of their domestic ones.

The difficulty arose from the comparison of NCB and Hongkong Bank suggests a new issue on a research methodology on international banking history. So far, the research on the history of international banking in Asia advanced centred on research on specialised overseas banks from Britain, France, Germany, and Japan. However, considering IBC/NCB in Asia as well as Japan's Zaibatsu banks discussed in Chap. 11 (Kasuya), a new approach is required which has a viewpoint on a bank integrating domestic and international businesses.

Lastly, considering the performance of IBC/NCB in Asia, we cannot say that by 1937 the leadership of international banking in Asia shifted from Britain to the USA. Such shift began after 1938 when the US government embarked on a loan to the Chinese Nationalist government after the outbreak of the Sino-Japanese War in July 1937 (Schaller 1990, pp. 55–56).

As in Yago's chapter on France (Chap. 7), Kasuya's chapter (Chap. 11) establishes an overview of Japanese international banking and also suggests another fresh perspective on international banking history research. First of all, compared with the literature, Kasuya attempts to restore the balance between Yokohama Specie Bank (hereafter YSB) and all other Japanese banks conducting international business as research subjects, in order to reconstruct a genuine and complete picture of Japanese international banking. Conducting this valuable task, Kasuya firstly reconstructs a picture of Japan's international relations, namely migration. Before the end of the Second World War, the Japanese population had spread widely, not only through East Asia, but also to Hawaii, the US West Coast, and Brazil. In Asia, Japan became a colonial empire, and migrants such as those in Taiwan, Korea, and later Manchuria were able to enjoy the benefits of imperial rule. As a colonial power, on the one hand, Japan's experience can be compared with that of the British or French Empires in the context of imperial histories. On the other hand, immigration from Japan can be compared with the experience of China, later discussed in Shiroyama's chapter (Chap. 12). By introducing the viewpoint of migration, Kasuya broadens our perspective on international banking from just industrial and commercial finance, particularly for a larger client, to retail services for the immigrant community. Sometimes, immigrants themselves established "Japanese" banks in foreign countries, which is also comparable with other nations such as China. However, also regarding the more orthodox subjects of industrial and commercial finance, Kasuya provides certain innovative perspectives. In a thorough comparison of major six Japanese international banks, that is, YSB, Bank of Taiwan, Bank of Chosen, Mitsi Bank, Mitsubishi Bank, and Sumitomo Bank, he introduces the new concept of "Homeland ratio" for the exchange bill transactions, which clarify the ratio of domestic to foreign bill transactions in each bank. Through 1905 to 1935, while YSB's homeland ratio was steadily less than 30%, the ratio of three Zaibatsu banks (Mitsi, Mitsubishi, and Sumitomo) went down from 100 to 30% by 1930. The ratios of Bank of Taiwan and Bank of Chosen fluctuated between 30 and 40%, respectively. Thus, while YSB was, by nature, an international bank like British overseas banks, the three Zaibatsu banks expanded their international businesses after establishing their domestic base, similar to the model of many US multinationals. This is fascinating, not only as an empirical fact, but also as a methodological issue, because the literature on international banking history has narrowly focused on "pure" international banks such as British overseas banks. Therefore, in most of the literature banks conducting both domestic and international business have been out of sight, or intentionally excluded, despite their importance in international banking after the First World War, and especially after the Second World War. Finally, Kasuya explores the clientele of Japanese international banks in Shanghai, like Bonin's chapter on French banking, although in a different way, with a newly discovered data. In the 1930s Shanghai, while the six large Japanese international banks had clients of every size, several small banks which had their HQs in the city concentrated on smaller customers. Among the big six, YSB was the largest and most important and played a role like a main bank for their clients in China. Such an objective evaluation of the importance of YSB is also new.

Finally, Shiroyama's chapter (Chap. 12) provides an overview of Chinese international banking, which is indispensable in understanding the modern international banking in Asia, especially in the early twenty-first century, as large Chinese banks had become the most powerful players by this time. Shiroyama's chapter consists of three aspects: modern Chinese banks in Shanghai, immigrants' remittance, and modern Chinese banks in Hong Kong. This distribution of topics is well balanced between the influences of governments, immigrants' communities, and private businesses. The first section deals mainly with Shanghai Commercial and Saving Bank (hereafter SCSB), established in 1915, and the Bank of China (hereafter BOC)'s Shanghai branch, established in 1916 after repeated institutional changes caused by political upheavals. BOC Shanghai's story tells us about the intricate relationships of various concerns, such as successive governments, local business communities, and foreign banks, mainly caused by the crucial role played by the city in Chinese finance, both domestic and foreign. While Republican governments frequently intervened in the Shanghai BOC, on occasion, the local Chinese business community tried to prevent it from dissolution, and finally, foreign banks provided it loans in order to relieve it from government monetisation. After the disorder, in 1928, BOC was appointed as the special bank for international exchange by Chiang Kai-shek's National Government, and the bank started constructing its foreign branch network. Due to the rise of the silver problem in international banking in 1935, with the Chinese currency reform, BOC was appointed as one of the four issuing banks, while still being in charge of foreign exchange. In the second section, Shiroyama turns her attention to the overseas Chinese community's remittances to their homes. This is comparable to the overseas Japanese community, but the former was far larger in size and impact on the development of banking in their home country. Of course, immigrants' remittance draws our attention to retail banking in its smallest sense, like in Kasuya's chapter; however, small remittance agencies utilised the large international banks' transfer networks, such as HSBC's between the South-East Asia and China, or the US West Coast and the country. Though not of primary importance, another interesting bank came to attention. This was the Ho Hong Bank established in Singapore in 1917 by the overseas Chinese population there, which was the origin of the Oversea-Chinese Banking Corporation (OCBC), now one of the three largest banks in the country, created by a merger in the early 1930s. Finally, we turn our attention to Hong Kong, the unique centre of Asian international finance, both then and now. Here, we can trace the development of Hong Kong's two indigenous modern banks, the Bank of Canton and the Bank of East Asia (hereafter BEA), both with fascinating histories. The former was established in Hong Kong in 1912, but was also an offshoot of the Canton Bank of San Francisco, founded in 1907 by the overseas Chinese community in the US city. The latter was born in 1919 and has survived as a powerful private bank in Hong Kong. BEA gathered Hong Kong-based Chinese foreign trade and shipping interests. Among the four modern Chinese international banks' experiences, we can derive some features in common. One is the key personnel's experience in a foreign country before they established each bank. First, the SCBS founder, Chen Huide, studied at Wharton School, Pennsylvania. Second, the BOC's restorer, Zhang Jiao, studied at Keio University, Japan. Third, a founder of the Canton Bank of San Francisco and the Bank of Canton, Lu Pengshan, worked for International Banking Corporation and Russo-Asiatic Bank (the successor of Russo-Chinese Bank). Last, a BEA founder, Kan Tong-po, worked for Yokohama Specie Bank Kobe branch and then moved to International Banking Corporation in the same city. His father, Kan Tien-hing, was also the comprador of YSB's Hong Kong branch. Interestingly, all of them experienced modern banking in the USA, Japan, or banks from other countries, rather than British banks. Such key personnel were able to successfully combine knowledge spillover from Western-style banking and knowledge from their own background of indigenous commerce and banking.

4 A Historical Perspective

This book covers international banking in Asia from the 1850s to the 1930s and deals with a variety of major banks such as HSBC, Chartered Bank, India, Australia, and China (Britain), Banque de l'Indochine (France), Deutsch-Asiatische Bank (Germany), Russo-Chinese Bank (Russia-France), Yokohama Specie Bank, Mitsui Bank, Mitsubishi Bank, Sumitomo Bank (Japan), International Banking Corporation (America), Bank of China (China), Oversea-Chinese Banking Corporation (Singapore), and so on. In 1911, more than 100 years ago, the Republican Revolution, or Xinhai Revolution, took place in China. To the new Republican Government, so-called Six Power Loan was planned in 1912. The loan would be provided by a consortium including HSBC (Britain), Deutsch-Asiatische Bank (Germany), Russo-Asiatic Bank (Russia), National City Bank of New York (America), and Yokohama Specie Bank (Japan) (King 1988a, p. 486). On the other hand, Table 1 shows the syndicated loan organiser ranking in Asia in the first quarter of 2018.

We can derive a lot of interesting insights into the comparison of two groups of banks having 100-year time distance. First of all, we cannot avoid paying attention

Table 1 Syndicated loan market share in Asia–Pacific excluding Japan: 2018 Q1

Bank	Nationality	Market share (%)
Bank of China	China	12.8
ANZ Banking Group	Australia	6.3
China Citic Bank	China	5.6
HSBC	Britain	5.1
Standard Chartered Bank	Britain	4.9
China Development Bank	China	4.7
Mizuho Financial	Japan	4.5
Mitsubishi UFJ Financial Group	Japan	4.3
United Overseas Bank	Singapore	4.1
DSB Group	Singapore	2.3

Source Bloomberg, Global Syndicated Loans League Tables Q1 2018, p. 26

to something in common of the two groups. Two British banks, HSBC and Chartered, have been major players in international banking in Asia even after 100 years have passed although Chartered Bank become Standard Chartered Bank in 1969 by the merger with Standard Bank, another British overseas bank mainly focusing in Southern Africa (Jones 1993, p. 271). Modern ANZ is also a descendant of British overseas banks in Australia and New Zealand such as Bank of Australasia, which was one of the first British chartered overseas banks established in 1835. Japan's Yokohama Species Bank, a major player in Asia before WWII, was transformed into Bank of Tokyo after the War and merged with Mitsubishi Bank in 1995.

On the other hand, a big difference has also emerged in current Asia after 100 years from the Six Powers era. That is the rise of Chinese banks in international banks in Asia. Another important difference of two eras is coming on the current stage of Singaporean banks.[5] These Chinese and Singaporean banks are dealt with in Chap. 12 (Shiroyama).

Further, contrasting to the rise of Asian banks, we perceive some retreat of banks from the USA, France, and Germany during the 100 years. Actually, descendants of international banks in Asia from the three countries around 1910 are still huge and highly competitive in current global perspective. However, just focusing on Asia, banks from Asia itself including Australia and New Zealand and two British banks are most competitive.

Interesting again, retreat of American, French, and German banks in Asia is not new in our historical perspective. During and after the First World War, we saw a resemblance. American banks quitted from the Six Power Loan due to President Woodrow Wilson's anti-imperialism diplomacy. As Germany lost the First World War and subsequently lost her overseas interests, Deutsch-Asiatiche Bank significantly shrank. Russo-Asiatic Bank, partly French concern, also shrank by the impact of Russian Revolution in 1917.

Only Banque de l'Indochine could survive competitively from the interwar period to the 1950s based on the French colonial rule on Indochina (in Chap. 8 by Bonin). However, even Banque de l'Indochine lost its source of competitiveness, French Indochina, due to the decolonisation of the region. The Banque de l'Indochine was acquired by the Compagnie financiere de Suez in 1972 and reorganised into the Banque de Indosuez in 1975 (Meuleau 1990, pp. 576–577).

American banks experienced fluctuations of their positions in Asia even after the Second World War. Since just after the war, American banks such as the National City Bank, the Chase National Bank, and the Bank of America had enjoyed their leading position in Japan and the South-East Asia although the market of the new People's Republic of China was closed to the Western banks after 1949. For instance, in the middle of 1960s, the Bank of America contributed to the emergence of the

[5]United Overseas Bank, DBS, and Oversea-Chinese Banking Corporation (OCBC) have been three largest banks in Singapore. Although it does not appear in Table 1, in syndicated loans in Asia in 2018 Q1 OCBC ranked as 18th (Bloomberg 2018, p. 27). DBS is formerly the Development Bank of Singapore which is mentioned in Chap. 2 (Cassis).

Asian Dollar market in Singapore (Chap. 2). Their presence in Asia was parallel with the Pax Americana in the global political economy before the 1970s.

The heyday of American banks becomes worn out from the Latin American debt crisis of the early 1980s. As a result, some American banks, notably the Bank of America, withdrew from international business. The last and largest blows to the American banks' international strategy were the Lehman shock in 2008 and the tighter regulations as an aftermath of the crisis. Of course, even after the crisis and regulations, American banks were still the giant players in global perspective; however, they have not been able to distribute their business resources heavily to Asian markets.

The history saw a similar situation of American international banking in Asia in the 1920s and 30s, successive prosperous and depressive era. At that time, the National City Bank of New York established a global branch network by expanding in Latin America and Europe and acquiring International Banking Corporation in 1915, which had the largest branch network in Asia among American banks. However, the National City Bank gave priority to Europe and Latin America over Asia. Other major American banks, like Chase National Bank or J. P. Morgan and Co. also took the same strategy as National City. Therefore, although having the plentiful resource, American banks could not become dominant in interwar Asia. As a result, British banks had still taken advantage there and followed by Japanese at least until the outbreaks of the Sino-Japanese War in 1937 or of the Pacific War in the end of 1941 (Chap. 10; Cain and Hopkins 2015, p. 652).

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Chapter 2
International Financial Centres in Europe and Asia, 1900–2000

Youssef Cassis

Abstract This chapter is a first attempt at looking at international financial centres in Europe and Asia during the twentieth century. It has three main objectives. First, to identify the main financial centres in Europe and Asia based on their type of activities and degree of international influence. Second, to compare the changing nature of emerging and established financial centres during the twentieth century. And third, to consider the position of European and Asian financial centres within a global context, with reference, in particular, to the shifting centre of gravity of international finance. After providing some definitions of international financial centres, the chapter takes a snapshot of their position at two moments in the twentieth century: before 1914 and at the turn of the twentieth century in section three. It concludes with some broader reflections on the emergence, rise, decline and fall of international financial centres, suggesting that despite the shift in the balance of power towards the East, an increasingly multipolar financial world is likely to emerge in the medium term.

Keywords Globalization · International financial centres · Asia · Europe · Twentieth century

1 Introduction

This chapter is a first attempt at looking at international financial centres in Europe and Asia during the twentieth century. In 2016, 63 out of 87 leading global financial centres (in terms of competitiveness) and four of the top five (London, Singapore, Hong Kong and Tokyo, in addition to New York) were located in these two continents. The proportion was similar in 1913 (though not for the top four, which were all in Europe and North America), even though comparisons in time are difficult, not least because of different ranking criteria. The chapter has three main objectives. The first is to identify the main financial centres in Europe and Asia based on their type of activities and degree of international influence. The second is to compare the

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changing nature of emerging and established financial centres during the twentieth century. The third is to consider the position of European and Asian financial centres within a global context, with reference, in particular, to the shifting centre of gravity of international finance.

After providing, in the first section, some definitions of international financial centres, the chapter takes a snapshot of their position at two moments in the twentieth century: before 1914 in section two and at the turn of the twentieth century in section three. Some broader reflections on the emergence, rise, decline and fall of international financial centres in a global context are proposed in a fourth and concluding section.

2 Defining International Financial Centres

Financial centres can be defined as the grouping together, in a given urban space, of a certain number of financial services; or, in a more functional way, it can be defined as the place where intermediaries coordinate financial transactions and arrange for payments to be settled. In both cases, this concentration can chiefly be explained by external economies, in particular in terms of liquidity and efficiency of markets, diversity and complementarity of financial activities, workforce skills and high-quality information.

This concentration can be found at national, regional and international levels, depending on the extent of the geographical area served by one financial centre or another. There are thus major differences between financial centres. Economists have proposed various quantitative measures to assess these differences. They usually include the number of foreign banks attracted to the centre; the number of multinational banks based in a centre; and the relative amount of non-residents' banking deposits existing in a centre. For the later part of the twentieth century, data is available on most national and international banking and financial activities—money markets, foreign exchange, capital markets, derivatives, assets management and so on.

In a pioneering work, Howard Curtis Reed distinguished between four types of financial centres: host international financial centres, which basically collect non-residents' deposits; international financial centres, which primarily played a regional role; international financial centres of the first order; and supranational financial centres, which can themselves be divided into subgroups—in 1980; for example, eight centres (including Frankfurt, Hong Kong, Paris and Zurich) were classified as supranational financial centres of the second order, two (New York and Tokyo) as supranational centres of the first order and just one, London, as the supranational centre *par excellence*.[1]

Subsequent analyses have put forward a number of variations on this theme. Geoffrey Jones, for example, has slightly adjusted Reed's model and reduced the number

[1] Reed (1981).

of categories to three: sub-regional financial centres, whose relations with the other centres are essentially of a bilateral nature; regional financial centres that cater to the needs of one region of the world; and global financial centres, whose vocation is truly worldwide.[2] Richard Roberts has suggested a fairly similar subdivision, adding offshore centres to the three preceding categories.[3] Other classifications are more functional: Dufey and Giddy, for instance, distinguish between traditional financial centres, based in large capital exporting countries; financial entrepôts serving as hubs for international capital flows; and offshore centres that work on behalf of non-residents.[4] The list is not exhaustive. More recently, a biannual publication, the *Global Financial Centres Index*, has ranked centres according to five main criteria: competitiveness, measured in terms of business environment; human capital; taxation; reputation; and financial sector development.[5]

My own approach has been different. Rather than drawing up a ranking and taxonomy of all the international financial centres over the last two centuries (an impossible task, if only because of the lack of documentation available prior to mid-nineteenth century), I have concentrated on the most important centres—those that truly make up *capitals of capital*. Their number has remained remarkably stable throughout the twentieth century: barely half a dozen in Europe (London and Paris; Berlin, followed by Frankfurt after the Second World War; then, to a lesser extent, Zurich, which can be combined with Geneva; Brussels, especially before 1914; Amsterdam, before 1800 and during the 1920s; and perhaps Luxembourg, as an offshore centre). At the world level, New York should be added from the end of the nineteenth century and, from the 1970s, Tokyo, Hong Kong and Singapore.[6]

This paper considers a broader range of international financial centres, combining quantitative and qualitative criteria. The transfer of capital can be considered as the main purpose of an international financial centre. Capital transfers have an origin, but also a destination. One question to be addressed, especially for the pre-1914 years, is to what extent international financial centres have been able to develop not only in capital exporting, but also in capital importing countries. A more common and more recent feature is the financial hub—a centre receiving capital on one hand and redistributing it on the other hand. Even though such a function is fulfilled by all international financial centres, some of them have tended to specialize in this role. International capital flows also require, at both ends, a set of financial institutions and markets, which have taken specific forms in each centre. The diversity of financial services and level of financial activity is another indicator of the importance of an international financial centre.

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[2]Jones (1992).

[3]Roberts (1996).

[4]Dufey and Giddy (1978).

[5]*Global Financial Centres Index*, since 2007.

[6]Cassis (2006).

3 International Financial Centres in the Early Twentieth Century

3.1 Established and Emerging Financial Centres

On the eve of the First World War, the leading financial centres were all located in the world's largest capital exporting countries: Britain, with 42% of the total stock of foreign investment in 1913, followed by France, with 20%, and Germany, with 13%, to which must be added three smaller Western European economies, Belgium, the Netherlands and Switzerland, which together accounted for 12%.[7]

London was then not only the world's premier financial centre. It was also the first modern financial centre, where an unrivalled range of financial services was provided. As is well known, the bill on London constituted the main instrument for financing world trade; these bills of exchange lay at the heart of the huge London discount market, in which the banks of the entire world participated directly or indirectly; London was the main centre for the issue of foreign loans; the London Stock Exchange was by some measure the largest and most international in the world; the City hosted major commodity markets, such as the London Metal Exchange and the Baltic Exchange, and was the world's leading insurance market, in particular with Lloyd's of London; the City also provided specialized professional services, especially legal and accounting; and the Bank of England was the 'conductor' of the international monetary system, the gold standard.[8]

Paris's position at the Belle Époque has been accurately described by Alain Plessis as that of a 'brilliant second'. Its strength lay above all in its long-term capital market. The big banks were the main actors and were involved in all types of financial activities, in particular the placing of foreign loans. Though smaller than the London Stock Exchange, the Paris Bourse was hardly less internationalized; and the Banque de France played a key role in the international financial system, maintaining regulation and stability by allowing its gold to flow to London when the need arose.[9]

Berlin was a newcomer in the higher echelon of the international hierarchy, replacing Frankfurt as Germany's main financial centre, but becoming far more important than the Hessian city both at national and international levels. However, Berlin was more inward looking than London and Paris, as its growth coincided with Germany's rise as an industrial power, though the big German universal banks were major players in international, as well as industrial finance.[10]

Brussels, Amsterdam, and Zurich and Geneva could not compete on all fronts and specialized in certain niches where they had a competitive advantage. Finance companies, such as Sofina in Brussels and Elektrobank in Zurich, were the most important in that respect, especially in Brussels and the Swiss centres. They were set

[7]United Nations (1949).

[8]See Cassis (1987) *La City de Londres, 1870–1914*; Michie (1992); Kynaston (1995).

[9]Plessis (2005).

[10]See Pohl (Hg.) (2002).

up with foreign, especially German capital, to finance the worldwide development of the power industry.[11]

The financial centres of capital importing countries played a different role, though not all an identical one, in the international financial system. Although neither in Europe nor in Asia, New York deserves some attention, not least because of its position at the interface between the two types of centre. New York became a major international financial centre as an entry point for capital imports rather than exit point for capital exports. Financing for the large railways and industrial companies was mainly obtained through the New York's capital market, where domestic and foreign funds were raised in vast amounts. The investment banks—J.P. Morgan, Kuhn Loeb and others—played a key role in this context, not least through their links to foreign financial centres, above all the City of London. More importantly, New York had become the financial capital of the world's largest economy.[12]

Were similar mechanisms at work in other capital importing countries? The dynamism of the American economy obviously set New York apart. The USA might have been the top destination for overseas investment, with 16% of the total, but foreign investment only made a limited contribution to the country's huge accumulation of capital (less than 5% between 1799 and 1900).[13] By 1913, it had also become the fourth largest exporter of capital, behind Britain, France and Germany, and an increasing number of foreign issues were being floated in New York from 1900 onwards. By the turn of twentieth century, New York had started to move from the position of an emerging international financial centre to that of an established one. Behind the USA, major capital importing countries included Canada and Russia (with 8% of the total), Argentina (7%), Brazil, Mexico, India, Australia, China, South Africa, Spain and the Austro-Hungarian empires (all with 4% to 6%)—four of them in Europe and Asia (Russia, India, Spain and Austria-Hungary).

3.2 Banking

One way of assessing the weight of international financial centres is to look at the number of *foreign* banks represented in these centres and *multinational* banks based in these centres. I have called *transnational banks* these two groups of banks taken together (Table 1). The method has its limitations, as international banking operations can be undertaken through other means, not least the use of correspondent banks. But it is a useful broad indicator.

The position of London at the apex of international banking is clearly apparent. Nearly two out of three of the world's transnational banks had either their head office (25) or a branch or agency (37) in London—62 in total. Paris, with 31 transnational banks (12 head offices and 19 branches), played a similar role, but on a smaller

[11] See Paquier (1998).

[12] See Myers (1931); Carosso (1970); Fraser (2005).

[13] Davis and Cull (1994).

Table 1 Transnational banks in international financial centres, 1913 (European and Asian centres in bold)

	Foreign banks represented in centre	Multinational banks based in centre	Total
London	37	25	62
Paris	18	13	31
New York	15	5	20
Shanghai	11	1	12
Hong Kong	10	1	11
Cairo	11	0	11
Constantinople	9	2	11
Bombay	11	0	11
Calcutta	11	0	11
Brussels	7	3	10
Hamburg	9	1	10
Alexandria	10	0	10
Rio de Janeiro	9	1	10
Sydney	7	3	10
Melbourne	7	3	10
Berlin	5	4	9
Amsterdam	3	5	8
Peking	8	0	8
Yokohama	6	1	7
Buenos Aires	5	2	7
St. Petersburg	2	4	6

Source Banking Almanac (1914)

scale—Paris had fewer overseas banks than Britain and fewer banks opted to open an office in Paris than in London—though eight of them were represented in the two cities.

Behind the world's two leading international financial centres, emerging centres were the most likely to host transnational banks: fourteen of the 21 centres with six transnational banks or more were located in capital importing countries, eight of them in Europe and Asia. They included New York (20), Shanghai (12), Hong Kong, Bombay, Calcutta, Constantinople and Cairo (11 each), Alexandria, Rio de Janeiro, Sydney and Melbourne (10 each), Peking (8) and Yokohama and Buenos Aires (7).

St. Petersburg was just behind (with 6). Amongst the established centres, all in Europe, Brussels (10), Berlin (9) and Amsterdam (8) were just about on a par with the leading emerging centres. On the other hand, European centres such as Vienna, Milan, Madrid, Zurich, Stockholm, Antwerp or Rotterdam hardly featured at all, with two or three transnational banks at most.

The status of Brussels as a leading international financial centre is clearly underlined by the strong presence of transnational banks, not only with the head office of three Belgian overseas banks, including the powerful Banque belge pour l'étranger (a subsidiary of the Société Générale de Belgique), but also with the branches of seven foreign banks, not least the leading French and German banks. Amsterdam, by contrast, was far less attractive to foreign banks. In Germany, German multinational banks were mostly based in Berlin, while foreign banks were more likely to open in branch in Hamburg.

Significantly, emerging centres tended to attract foreign banks rather than host the head office of multinational banks—a sign of their attractiveness, but also of their position within the world economy. In China, India and the Middle East, virtually all multinational banks were foreign. The exception was Japan, with the Yokohama Specie Bank, and St. Petersburg, where multinational banks outnumbered foreign banks by three to two. The same phenomenon can be observed in Latin American and Australasian centres, as well as in New York, with fifteen (out of twenty) foreign banks.

It is not surprising to find so many branches of foreign banks in emerging centres. These overseas banks were founded, first in Britain and then in other European countries, in order to finance trade and provide financial services in regions lacking in banking infrastructure.[14] The corollary of this strong presence of foreign banks was the weakness of their domestic banking institutions. Quantitative comparisons with established centres are difficult. The size of the domestic banks based in a centre, however imperfect a measure, gives some indication of the weight of the centre, the more so as domestic and international banking tend to complement each other.

The world's largest banks, measured by total assets, (Table 2) were concentrated in London, Paris and Berlin—18 of the top 30 banks in 1913—ten in London, four in Paris and four in Berlin—and nine of the top ten—four in London (Midland, Lloyds, Westminster and National Provincial), three in Paris (Crédit lyonnais, Société Générale and Comptoir d'Escompte) and two in Berlin (Deutsche and Dresdner). Smaller centres obviously had smaller banks, though Brussels could claim the 11th largest with Société Générale de Belgique—ahead of Barclays and Disconto-Gesellschaft—and Vienna the 19th with the Creditanstalt. Dutch and Swiss banks were smaller—£26 million for the Netherlands Trading Company and £23 million for the Swiss Bank Corporation, which put them out of the top 30.

In the USA, the expansion of large banks was limited as they were legally banned from establishing branches in another state. In 1913, only two of the world's top 30 banks were registered in New York: National City Bank, in 16th place, and Guaranty Trust Co. of New York, in 23rd. On the other hand, three of the world's 30 largest banks and one of the top ten (the Banque russo-asiatique) were registered in St. Petersburg. However, by the eve of the war, the leading Russian banks were increasingly controlled by foreign groups—they had been severely weakened since the early twentieth century by economic crisis, the Russo-Japanese war and revolution and had been reorganized with foreign, especially French capital.[15] Elsewhere, large

[14] See Jones (ed.) (1990).

[15] Girault (1973).

Table 2 The world's 30 largest commercial banks, 1913 (Total assets, £ million)

1	Crédit lyonnais (Paris)	113
2	Deutsche Bank (Berlin)	112
3	Midland Bank (London)	109
4	Lloyds Bank (London)	107
5	Westminster Bank (London)	104
6	Société Générale (Paris)	95
7	Banque russo-asiatique (St. Petersburg)	78
8	Comptoir National d'Escompte de Paris (Paris)	75
9	National Provincial Bank (London)	74
10	Dresdner Bank (Berlin)	72
11	Société Générale de Belgique (Brussels)	72
12	Bayerische Hypotheken und Wechsel Bank (Munich)	67
13	Barclays Bank (London)	66
14	Russian Bank for foreign trade (St. Petersburg)	61
15	Disconto-Gesellschaft (Berlin)	58
16	National City Bank (New York)	57
17	Parr's Bank (London)	52
18	Bank of Montreal (Montreal)	50
19	Creditanstalt (Vienna)	50
20	Union of London and Smiths Bank (London)	49
21	Bank of New South Wales (Sydney)	48
22	Banque de l'Algérie (Paris)	47
23	Guaranty Trust Co. of New York (New York)	47
24	Russian Commercial and Industrial Bank (St. Petersburg)	45
25	Bank für Handel und Industrie (Berlin)	44
26	Capital and Counties Bank (London)	43
27	London Joint Stock Bank (London)	41
28	Yokohama Specie Bank (Yokohama)	40
29	Hong Kong and Shanghai Banking Corporation (Hong Kong)	39
30	London and River Plate Bank (London)	39

Source Banking Almanac (1914)

banks were a rarity—one of the top 30 was based in Montreal, another in Sydney and another one, ranked 28th, in Yokohama. The Hong Kong and Shanghai Banking Corporation, registered in Hong Kong, came just behind, at 29th, but was controlled by British interests. The total assets of the largest banks registered in other Asian centres were in the £10–15 million range—the Mitsui Bank, in Japan, or the Bank of Bengal, the largest of the three Presidency banks, in India.

3.3 Financial Markets

The development of financial markets confirms the trends observed in domestic banking, with significant differences between emerging and established international financial centres. London, once again, was well ahead of the rest. The nominal value of securities listed on the London Stock Exchange reached £11.3 billion 1913, in other words nearly twice the Paris Bourse (£6.2 billion) and the New York Stock Exchange (£5.3 billion). The Berlin Börse was close behind (£5.2 billion), though speculative transactions were limited by the law of 1896 and tended to move outside Germany—to Amsterdam and London in particular.

The difference is striking with emerging centres, where financial markets tended to be under-developed. The major exceptions were St. Petersburg and Vienna. In 1900, the market capitalization of the St. Petersburg Stock Exchange was nearly as high as that of the Berlin Börse ($1.56 billion and $1.58 billion, respectively), while the Vienna Börse ranked in the top ten, above Brussels and Amsterdam. The St. Petersburg Stock Exchange contributed significantly to the financing of Russian industries. Russian securities were quoted abroad, mainly on the Paris and Brussels Bourses, but foreign securities were forbidden from being quoted and traded in St. Petersburg. In Japan, the Tokyo Stock Exchange was an important source of finance for the domestic economy, though with fewer international links as Japan was far less reliant on foreign capital. However, in terms of market capitalization, the Tokyo Stock Exchange was a minnow before the First World War.[16]

Stock exchanges developed early in Bombay and Calcutta and played an increasing role in the financing of Indian owned businesses after 1900. Similarly, the Cairo Stock Exchange offered an active market for a growing number of Egyptian joint stock companies. But all these markets remained fairly small. As Ranald Michie has clearly shown, stock exchanges in emerging centres had become integrated to the global securities market by the early twentieth century, but they only rose to international prominence in the wake of a boom in the commodity in which they specialized—Malaysian rubber companies in Shanghai, for example, but especially gold and mining companies in Johannesburg, making it, arguably, the most important emerging stock market of the pre-1914 era. In rich non-European countries such as Canada and Australia, government bonds and the securities of the largest businesses, above all railway companies, were mostly held and traded in Britain, thus confining the stock exchanges in Montreal, Toronto, Melbourne and Sydney to dealings in local joint stock companies. The same applies to Buenos Aires and even more to the other Latin American centres.[17]

[16]Michie (2006).

[17]Michie (2006).

3.4 *Trade Finance*

Trade finance remained one of the major activities of international financial centres before 1914, especially in the world's leading centre, the City of London. In many respects, the pre-war City was as much a trade as a financial centre. Even from a financial perspective, the City's supremacy rested, alongside the issue of foreign loans, on the financing of international trade.[18] London's lead was actually greater in acceptances than in foreign issues and the importance of international acceptances as an essential component of a leading international financial centre was widely acknowledged in, as witnessed by the attempts at establishing a market for them in New York and Paris during and after the First World War.[19]

With the exception of London, which combined the two, capital outflows were the dominant feature of established financial centres, trade finance of emerging ones, especially in Asia. Hong Kong, Shanghai, Singapore, Bombay, Calcutta and a few lesser centres in India and China were primarily trading centres, with banking as an ancillary activity. The presence of powerful merchant houses, mostly but not only British, contributed to that role. The prime purpose of the overseas banks established in these centres was the financing of foreign trade. A similar pattern is observable, to a certain extent, in Latin America, especially Buenos Aires, less so in emerging centres where other factors played a more significant role, for example, the local economy (in Canada and Australia), or international politics (in Russia or the Middle East).

3.5 *Some Conclusions on the Pre-1914 Globalization*

Ranking international financial centres on the eve of the First World War is at once a difficult and an easy exercise, a purposeful and a meaningless one. It is difficult because of lack of data on international banking transactions. However, a number of other indicators, related to international capital flows, international banking, financial markets and trade finance help getting a clearer picture.

Established international financial centres were located in capital exporting countries, and their ranking is self-evident—London, Paris, New York, Berlin, Brussels, Amsterdam, and Zurich and Geneva. They were the 'capitals of capital', the financial centres of the seven countries providing 95% of the stock of foreign investment in 1913. They displayed a sophisticated banking architecture, combining domestic and international finance, and (with the exception of New York) highly internationalized stock exchanges.

There was a great diversity between emerging centres, in terms of political status, degree of international openness and level of economic development. Capital inflows led to the development of major international financial centres in the USA, with New York becoming an established centre in the two decades preceding the First World

[18]Michie (1992).

[19]Cassis (2006).

War, and to a lesser extent in Russia, with St. Petersburg displaying many features of an established centre. Vienna could possibly be added to this list. On the other hand, trade finance led to the emergence of very dynamic international financial centres in Asia, especially Hong Kong, Shanghai, Yokohama, Bombay and Calcutta. Some of them started to play a regional role, especially Shanghai in South East Asia, and developed in the process domestically owned and controlled financial institutions—though more so after the First World War. Finally, international financial centres were far less developed in major capital importing countries outside Europe and Asia, such as Canada, Australia, Argentina or Brazil.

4 International financial centres at the turn of the twenty-first century

Fast forward 80–90 years, to the turn of the twenty-first century, in a world economy once again globalized. According to estimates by Maurice Obstfeld and Alan Taylor, foreign assets represented 92% of world GDP in 2000, up from 25% in 1980 and barely 6% in 1960—but from a probably underestimated 55% in 1900.[20] Looking at international financial centres, one is struck by a sense of great continuity, combined with some significant changes. The continuity is observable in the persistence of the leading international financial centres. The main changes were, on one hand, the rise of a few newcomers to the top echelons of the international hierarchy; and on the other hand, the economic context within which international financial centres were operating.

4.1 Established Centres

As before 1914, the leading international financial centres were located in the major capital exporting economies. In 2000, two-third of the stock of foreign investment was held by the USA, Great Britain, Japan, Germany and France.[21] The top two centres were New York and London. They had alternated at the top since the 1920s, New York on account of its position as the financial centre of the world's dominant economy, London on account of its financial traditions and high level of internationalization.

Here again, New York cannot be left out of the picture, if only on account of the dominant position of the USA in the world economy. New York came first in overall size, even if London had the edge in direct international activities. Even if New York had become far more international since the 1950s, the weight of the American economy still dominated the way that its financial institutions operated, as well as the activity and turnover of its markets, which thus effortlessly outperformed the

[20]Obstfeld and Taylor (2004).

[21]Obstfeld and Taylor (2004).

City. Of the four main indicators most often used to gauge the importance of international financial markets (international banking transactions, asset management, capital market and other markets, including the foreign exchange market), New York came top, but with a large lead, in only one of them: the capital market. In 2001, the capitalization of the New York Stock Exchange was more than five times higher than that of the next ones, whether London or Tokyo.[22] But it was New York which set the tone in international banking and financial business, not least because of the American multinational banks, mostly based in New York, and on which a great deal of London's international influence depends.

London, for its part, came top in the three other indicators (international banking, asset management and foreign exchange), and it has always been the centre attracting the highest number of foreign banks (481, as against 287 in New York). The policy of opening up to the world, instigated by the City and backed up by the British authorities when the Euromarkets were established in the late 1950s, has been kept up relentlessly and has borne fruit, at the cost, however, of a certain eclipse of British financial institutions and the City's dependence on foreign banks—what has sometimes been called the 'Wimbledon effect'.[23]

The major newcomer of the post-war era was Tokyo. As a result of Japan's rise to the rank of economic superpower, Tokyo established itself as a major international centre during the seventies, going in twenty years from being a regional financial centre to a centre of world dimensions. And the possibility that Tokyo might overtake New York and become the world's leading financial centre did not seem entirely far-fetched at the end of the eighties. However, such judgements were too hasty, as the American economy, far from declining, enjoyed spectacular growth in the 1990s whereas the Japanese economy went into a long slump, which had severe repercussions for Tokyo's international position. Nevertheless, as the financial capital of the world's second economic power, Tokyo continued to play a far from insignificant role in international financial relations, though as a centre greatly dependent on the domestic economy.

Frankfurt cannot be really considered as a newcomer amongst leading international financial centres. Not only did it have a glorious past, in the late 18th and early 19th century, but more importantly, it actually replaced Berlin as West Germany's financial centre after 1945. Its rise as a leading financial centre was at first mainly dependent on the domestic economy. It was only in the late 1980s that Frankfurt overtook Zurich and Paris to become Continental Europe's leading financial centre. The decision in 1992 to establish the headquarters of the new European central bank in Frankfurt gave it a further boost, raising hopes that it might eventually overtake London, but this appeared highly unlikely a decade later.[24]

Paris was the main loser amongst the established centres. Its position after 1945 was a mere shadow of what it had been only some 30 years earlier, and it did not improve during the 1950s. Much more than in Britain, the state's grip ended up stifling

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[22] Roberts (1998).

[23] Roberts and Kynaston (2001).

[24] See Holtfrerich (1999).

the Parisian capital market, not only when it came to foreign loans, but also issues of French companies. However, the French capital regained much ground from the 1988 onwards, without, however, really finding its role. Paris did not dominate any of the main fields of international financial activity, but held some aces, especially in asset management (in second place in Europe after London), as well as in the bond market and derivatives, while the foundation of Euronext in 2000 offered some strategic prospects within the potential groupings of stock exchanges.[25]

Switzerland, by contrast, was the main winner and the only small European country to host a major international financial centre, Amsterdam, and even more so Brussels having slipped down the world rankings. Neutrality during the Second World War was a decisive help. Following the war, Zurich and Geneva quickly developed their role for accommodating and investing foreign capital, through bond issues and wealth management. In the 1960s, Switzerland probably ranked third, behind New York and London, in the international hierarchy. It had somewhat regressed by the turn of the twenty-first century, as restrictions on capital flows were eased, inflation fell, and the growing stability of the main European currencies, culminating in the introduction of the euro, made the Swiss franc lose one of its traditional attractions. Nevertheless, Switzerland continued to figure amongst the leading centres. It increasingly specialized in wealth management, with the Swiss financial centres managing 35% of the world's private offshore wealth (Britain 21%, USA 12%).

4.2 Emerging Centres

The number of so-called emerging or rather aspiring international financial centres increased significantly in the 1990s. Several cities, especially in emerging economies, were actively promoted with the aim of their gaining the status of regional or even global international financial centre. Most of them were in Asia: Dubai, Qatar and Bahrain in the Middle East, Mumbai in India and Shanghai in China.

Some of them were already part of the international financial system before 1914. However, their situation was different from that prevailing earlier in the century in two main respects. First, they were no longer located in capital importing countries. By the late twentieth century, foreign investments were mainly directed towards advanced rather than developing economies, with North America, Western Europe, Japan and Australia and New Zealand attracting more than 80% of the total. And second, they were no longer linked to other financial centres through the branches of the old overseas banks, mostly British and French, as well as German before the First World War. From the 1960s, with the growth of Euromarkets, multinational banks shifted their attention from developing countries to the world's main financial centres. American banks started their formidable expansion abroad, while British overseas banks had to undertake a profound restructuring. Emerging international

[25] Straus (2005).

financial centres had to become attractive in different ways, by being more akin to established centres.

Within this group, two centres were able to successfully manage the transition from emerging to established and from regional to global financial centres: Singapore and Hong Kong. Both were already emerging centres before 1914 and significant regional centres until the 1970s. This early integration into world finance is usually considered as having positively contributed to their reaching global status. Their solid banking institutions, inherited from the British overseas banks, especially the Hong Kong and Shanghai Bank and the Chartered Bank, were also a help, as was their advantageous geographical location and good connections with the rest of the world. In addition, their political regimes were stable, despite the troubles that plagued Hong Kong during the Chinese Cultural Revolution at the end of the 1960s and the uncertainties relating to its return to its big neighbour in 1997. In a nutshell, Hong Kong and Singapore appear to have met the most important requirements for the rise of an international centre, unlike the financial capitals of most emerging economies.[26]

In spite of these favourable conditions, there was nothing spontaneous in Singapore's development. On the contrary, it was the result of a systematic effort made on the part of the authorities, immediately upon the country's independence in 1965, to turn it into an international financial centre. The first step was taken in 1968, when they authorized Bank of America to collect deposits and grant loans in dollars to Asian clients: the Asian dollar market was born and, like the eurodollar market in London, found its home in Singapore. The government also intervened directly to encourage the emergence of a bond market, with the first issue of Asia dollar bonds taking place in 1971—$10 million on behalf of the Development Bank of Singapore. Singapore's financial markets really took off in the 1980s, especially the Asia dollar market, which increased fourfold between 1982 and 1990 (from $86 to more than $350 million). The foreign exchange market grew in its wake, to reach the fourth position in 1998, behind London, New York and Tokyo; and derivatives started being traded in 1984 with the foundation of SIMEX. As a result, an increasing number of foreign banks set up there, reaching 260 in 1995, including 75 merchant banks.[27]

While Singapore was making a name for itself as the main centre in Asia for the Eurodollar and Eurobond markets, syndicated Eurocredits found a home in Hong Kong, with operations on behalf of enterprises and governments in the region's main economies—Japan, Taiwan, South Korea, Australia and New Zealand, later joined by Thailand, the Philippines and, above all, China. In the space of about ten years, Hong Kong established itself as the world's third centre for Eurocredits, behind London and New York. Unlike Singapore, Hong Kong does not owe its rise to deliberate government policy. On the contrary, the authorities adopted a non-interventionist stance, at the same time creating conditions conducive to developing financial activities, notably a favourable tax system and modern infrastructure. On top of this, there was an absence of exchange control, a robust legal system, the existence of the rule of law and, above all, its position as the door for a China

[26] Park (1982).

[27] See Bryant (1989); Lessard (1994).

that began to open up to the world at the end of the 1970s.[28] At the close of the twentieth century, Hong Kong strength lay in international banking, where it was in fifth position, the gold market (fourth position), and its financial market, with the second market capitalization in Asia behind Tokyo. Its international status was mirrored in the presence of foreign banks, numbering 357 in 1995, that is to say more than any financial centre except for London.

5 Conclusions

Contemporary economic and financial literature has identified conditions that are necessary for the development of international financial centres. The most important and most frequently debated include stability of political institutions; strength of the currency; sufficient savings that can readily be invested abroad; powerful financial institutions; firm, but not intrusive state supervision; light tax burden; highly skilled workforce; efficient means of communication; and plentiful, reliable and widely accessible information. Can these conditions explain the rise and decline of international financial centres in Europe and Asia in the twentieth century? Yes and no: while necessary, with some variation over time, they do not provide sufficient explanation.

The rise of a major international financial centre is in fact closely linked to the economic power of the country that hosts it. This may seem an obvious thing, but it is often overlooked. Each of the three cities successively ranked first in the world since the eighteenth century (Amsterdam, London and New York) has at the same time been the financial centre of the dominant national economy of the day. The same goes for Berlin's emergence in the last third of the nineteenth century, as well as for Tokyo's and Frankfurt's a hundred years later, as Germany and Japan in turn acquired an economic standing that gave their respective financial centres an international dimension. Hong Kong owed, indirectly at least, its more recent rise to the growing weight of a China that was opening up to the world economy. There are, as usual, exceptions, such as Switzerland, especially from the 1950s to the 1980s, thanks to exceptional circumstances arising from its neutrality during the war, capital inflows and the role of refuge currency played by the Swiss franc; or Singapore, who was able to take advantage of the emerging Asian market from the late 1960s and the absence of a major financial centre in South East Asia.

Once established, international financial centres tend to display a remarkable longevity. This can be explained by the persisting economic power of the host countries, including declining powers such as Britain, France and even Germany. It can also be explained by path dependency: staying power through changes in the world economy as well as the traditions of the cities of finance has played a role here. Another factor is that the decline or fall of a major international financial centre is usually triggered off by a military cataclysm, irrespective of the outcome, victory or defeat: Amsterdam during the French Wars, Berlin and to a far lesser extent Paris

[28] See Jao (1983); Schenk (2001).

after the Second World War. In a less dramatic way, London's replacement by New York was accelerated by the First and then precipitated by the Second World War. Conversely, no financial crisis, however devastating, has led to such upheavals.

Can these reflections on the long-term history of international financial centres tell us anything about future developments? Looking first at Europe and Asia, an obvious conclusion is the shift in the balance of power towards the east. Admittedly, Tokyo was weakened by the burst of stock market and property bubbles in 1990 and the ensuing 'lost decade'; and New York and London retained their leading positions after the financial crisis of 2008. Nevertheless, the balance of power is no longer clearly in favour of Europe. London might remain the world's leading global financial centre, but the other European centres (Frankfurt, Paris, Zurich, Luxemburg) are falling behind their Asian counterparts (Tokyo, Singapore, Hong Kong, Beijing). The phenomenon might well be aggravated by Brexit, which could result in London losing its world predominance with no other European centre ready to take up the mantle, at any rate in the short term.

At world level, this should reinforce New York's position, whose top position is unlikely to be overtaken in the short to medium term by the most likely challenger whether in Europe or Asia, namely Shanghai. The USA remains, by a long distance, the world's leading financial power, and China is in no position to challenge it. Some historical parallels are revealing. When the USA started challenging Britain before 1914, its GDP was already two-and-half times as large, and its GDP per head 20% higher—and it took thirty years, including two world wars, for the transition to be finally completed. In 1989, at the height of Japan's apparently unstoppable rise, its GDP was 40% that of the USA and its GDP per head 80%—and the challenge soon petered out. In 2015, China's GDP was less than two-third that of the USA, and its GDP per head less than a 15%. So bar a military cataclysm, a radical change in the hierarchy of international centres is likely to take a long time.

In the meantime, the growing weight of a number of emerging economies, above all China, but also the other members of the so-called BRICs (Brazil, Russia, and India) will enable them to be part of an increasingly multipolar financial world and, in particular, to host a financial centre of world significance—as did Germany with Berlin and the USA with New York in the nineteenth century, and Japan with Tokyo in the twentieth. So Shanghai, Mumbai, Moscow and Sao Paolo should in due course, though not necessarily at the same time, rank alongside New York, London, Tokyo, Hong Kong, Singapore, Frankfurt and Paris in the international financial hierarchy.

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Chapter 3
From Silver to Gold: The Currency Reforms in Asia Before 1914

Takeshi Nishimura

Abstract Standard silver prices began rapidly declining in the London silver market in the 1870s. Most countries and colonies that had previously adopted bimetallism or the silver standard were forced to reform their currency systems and adopt the gold standard. However, in Asia, local and regional merchants, as well as the local and regional government and most authorities, continued to use silver currency as a primary medium of exchange. Adopting the gold standard was less straightforward for Asian economies than for continental Europe. However, between the end of the nineteenth century and the beginning of the twentieth century, most colonies and countries in Asia adopted the gold-exchange standard. This reform contributed to expanding the international trade between Asia and the rest of the world and also promoted intra-Asian trade at the beginning of the twentieth century. In other words, the gold-exchange standard, which had both the function of the gold standard and a large amount of silver circulation, was one of the most important institutional fundamentals for the development of Asian economies at the beginning of the twentieth century.

Keywords Silver · Gold · Asia · Silver depreciation · Gold-exchange standard · Currency reform

1 Introduction

In 1872, the average price of standard silver in London was £ 0.2513 per ounce. Thirty years later, in 1902, it was £ 0.1003 per ounce (Spalding 1920, p. 290). The sudden but continuous depreciation in the price of silver was caused by the discovery

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of new silver ore deposits in various parts of the world and the transition of currency systems in Europe from bimetallism to the gold standard. In addition, world gold production declined in the 1870s, and European countries with bimetallism and silver standard currency systems quickly abandoned the free coinage of silver to avoid confusion in their monetary systems. In all major countries, the authorities improved the operation of the gold standard and reorganised their monetary systems. Meissner argues that following the German Empire's adoption of the gold standard in 1872, most European countries shifted to the gold standard to enjoy the benefits of the economic and commercial networks associated with the use of the same monetary system by major trading partners and counterparts in the financial market (Meissner 2005).

In contrast, most Asian countries could not adopt the gold standard in the 1870s because, under European colonisation, they were forced to maintain silver-based monetary systems. However, by 1908, most Asian countries, except China and Hong Kong, had shifted their monetary systems to the gold-exchange standard.

A gold-exchange standard is a form of the gold standard that does not have gold currencies in circulation. In these monetary systems, a country's currency could be converted into bills of exchange drawn on a country whose currency was convertible into gold at a stable exchange rate. Countries adopting the gold-exchange standard were thus able to keep their currency at par without the need to maintain large gold reserves, as required under the gold standard. Most Asian countries stabilised the exchange rates between their silver currencies and the pound sterling without allowing gold currencies into circulation (Nishimura 1980, pp. 3–17).

This chapter addresses the following questions: Why did most Asian countries adopt the gold-exchange standard? How were their currencies stabilised under the gold-exchange standard? How did the stabilisation of the gold-exchange standard contribute to expanding the external economic relations of Asian countries?

This chapter is organised as follows. Section 2 briefly outlines how various kinds of silver currencies in circulation were used as a medium of exchange in rural and local markets, and how these currencies contributed to developing the Asian economies before the First World War. Section 3 discusses why most Asian countries and colonies decided to change their monetary systems and how they achieved the stabilisation of the exchange rates between their currencies and gold. This was done by stabilising the exchange rate between their currencies and the pound sterling. Finally, Sect. 4 discusses how the gold-exchange standard contributed to the economic development of the Asian economies, and how the silver currencies in circulation under the gold-exchange standard accelerated to expand the economic and commercial activities of local and regional merchants in Asia before the First World War.

2 Silver Currencies in Asia

In the mid-nineteenth century, most Asian economies used silver as the primary medium of exchange. In British India, silver currencies represented about 70% of the all currencies in circulation in 1912 (Nishimura 2003 p. 81). Although British India established the gold-exchange standard before the outbreak of the First World War, for very long, silver currencies remained the most important medium of exchange. In 1835, the English East India Company (EIC, henceforth) made its rupee the standard silver coin in British India. Although various kinds of silver rupees were used as a medium of exchange until the beginning of the nineteenth century, the EIC's rupee rapidly penetrated the Indian subcontinent and replaced rural and local rupees as a medium of exchange.

As well known, after the Indian Rebellion occurred in 1857 was suppressed, the EIC was forced to be disbanded by the British government, and the British government decided that the territories administrated by the EIC were put under the direct rule of the Indian government controlled by the British government. After the establishment of the direct rule of the Indian government, the government immediately supplied a large amount of their own silver rupee all over the Indian subcontinent. By the 1880s, it had been succeeded to replace silver rupees issued by the EIC for the silver rupee issued by the Indian government. By the beginning of the twentieth century, the silver rupee issued by the government became the primary medium of exchange in British India.[1]

In contrast, many different silver taels remained in circulation in China because local authorities minted original taels without the united standards and directly supplied them to the markets. In various Asian countries, mainly in Southeast Asia, silver dollars minted in Mexico and the Spanish colonies in South America were preferred when settling economic and commercial transactions. In Japan, silver currencies had already disappeared in local areas as primary medium of exchange by the beginning of the nineteenth century. Mexican and Spanish silver dollars never became the primary medium of exchange in Japan, even after the Meiji Restoration.

Mexican dollars generally reached the Asian countries via the London silver market during the second half of the nineteenth century. Although many Spanish merchants carried silver dollars to mainland China via Acapulco, Manila, and Macao at the end of the sixteenth century, the route of silver that moved from North and South America to Asia via London had become the largest, and the four silver brokers in London had already controlled all major silver flows at the beginning of the nineteenth century. Most Mexican and Spanish dollars were generally imported as silver bullion in London, and the four silver brokers sold them to traders and banks. Those who traded with Asian countries purchased silver dollars to cover their deficit with Asian

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[1]In 1893, most native states in the Indian subcontinent officially abandoned their rights of free coinage. However, some major native states held on to their rights of coinage until the independence of 1947 (Gupta 1979, Chap. 18). Various silver currencies were maintained in circulation until the 1930s.

countries. Banks with branches and agencies in Asia purchased silver dollars to pay for the bills of exchange from depositors and relatives.

Most Asian countries began accepting Mexican and Spanish dollars by the unit rather than by weight. However, in British India, most Mexican and Spanish dollars were purchased by the India Office, which sent them to the mints in Bombay and Calcutta where the dollars were reminted as rupees. Dollars were also re-exported to the British colonies in Southeast Asia. In the mints in Bangkok, most Mexican and Spanish dollars imported from London were reminted as bahts, and the rest was supplied to local markets at the border between Siam and British Malaya. Most rural regions of mainland China also accepted these silver dollars both by the unit and by weight. Although in several areas these dollars were not accepted as a medium of exchange, most countries and regions began accepting them by the unit.

In the mid-nineteenth century, after the opening of the Suez Canal, the international trade between European and Asian countries significantly increased. The expansion of international trade also had a positive impact on the intra-Asian trade (Sugihara 1996, Chap. 1). As a result, the demand for silver currencies as a means of exchange increased in Asian countries. In British India, railway networks and major ports' facilities were rapidly developed, and inland trade and coastal trade expanded. A large amount of silver was absorbed by the Indian subcontinent. In addition, because many people traditionally hoard treasures, British India imported a large amount of silver from London.

The rapid expansion of international trade caused a shortage of silver currencies not only in British India but also in the rest of the Asian countries and colonies. In the Straits Settlements, although the British authorities tried to introduce rupees as legal tender, most Chinese merchants continued to use Mexican and Spanish dollars as a primary means of exchange, and British authorities in the Straits Settlements gradually abandoned the plan to shift to rupees. The authorities of most Asian countries and colonies tried to introduce original dollars of similar size, weight, design, and silver content as the Mexican dollar. In 1867, the British authority of Hong Kong introduced an original dollar and began coinage in Hong Kong. However, this project failed in 1869. In 1895, the British authorities tried again to introduce the original British dollar in Hong Kong, the Straits Settlements, and other major ports of East Asia. At this time, the British authorities developed a plan for the integration of the currency systems of East and Southeast Asia under the British monetary regime with the original British silver dollar. However, this project also failed. The Dutch rix dollars were also used in parts of the Dutch East Indies. The French authorities of French Indochina introduced their original silver trade piastre in 1885. The Spanish authorities of the Philippines introduced their original peso and supplied the currency to the domestic markets in 1887. Japan also began the coinage of its original silver yen for trade in 1871. A large number of the Japanese silver yen for trade was imported into the Straits Settlements, and most Chinese and local merchants accepted this currency as a means of exchange. The Japanese silver yen had a primary role in the currency system of the Straits Settlements until 1898.

As well known, after the substantial depreciation of silver against gold, the Latin Monetary Union and Scandinavian Monetary Union decided to abandon silver currencies as legal tender and adopted a de facto gold standard (Redish 1993; Bergman et al. 1993; Vanthoor 1996). This shift in monetary policy from bimetallism to the gold standard caused a significant decrease in the demand for silver in European countries, and the price of standard silver at the London silver market declined dramatically. However, as mentioned above, the demand for silver in the Asian countries and colonies rapidly increased in the mid-nineteenth century, thus absorbing a large amount of silver from Europe and indirectly pushing European countries to reorganise their monetary systems towards the gold standard (Flandreau 2004).

Silver-suited most Asian countries and colonies as a means of exchange because the borders among Asian countries and colonies were not yet clearly drawn, and central governments did not exercise real authority in many regions. Silver currencies without authority, such as the Mexican and Spanish silver dollars, were widely accepted by the Asian general public. When the borders were more clearly drawn, and central governments secured stronger powers, silver currencies without authority were gradually abandoned, and national currencies were rapidly introduced in most Asian countries and colonies. However, since most Asian economies still relied on relatively large subsistence sectors, most people did not need a large monetary unit. Domestic and intra-Asian transactions were typically small and generally settled in cash. Hence, silver currencies were more suitable than gold for these transactions as a means of exchange. Gold was too valuable to suit most Asian people's transactions. In addition, Chinese and Indian merchants (including overseas merchants) traditionally preferred silver currencies as a means of exchange. Silver could be used in international trade with European countries because the price of silver against gold had been rather stable until the 1870s. However, after the dramatic depreciation in the value of silver against that of gold, silver was abandoned in the transactions between European and Asian countries and only used in intra-Asian trade. As a result, the British authorities in Asian countries and colonies created an original gold standard with silver currencies in circulation.

3 From Silver to Gold

Britain had already adopted the gold standard by 1814. However, until the 1860s, only Britain, Portugal, Bremen, Canada and Australia had implemented the gold standard, while other major countries implemented the bimetallism or silver standard (Eichengreen and Flandreau 1996, p. 115). Only after the depreciation in the value of silver against that of gold at the London silver market, did most European countries decide to shift their currency systems to the gold standard. By the eve of the First World War, all major European countries had adopted the gold standard.[2] Many

[2]Bordo and Rockoff (1996) argued that the adoption of the gold standard was a sign of the adherence to the monetary rule. A 'good housekeeping seal of approval' gave developing countries that adopted the gold standard, such as most of the Asian colonies and countries, opportunities to

of such countries and merchants sold excess silver as bullion on the London silver market or used it to cover their trade deficits with Asian countries that had adopted the silver standard. As a result, these sales accelerated the depreciation of silver at the London silver market.

Most countries in Asia, except China, Siam, and Japan, had been de facto colonised by major European countries by the beginning of the twentieth century. Their economies were strongly integrated with the world economy led by major European countries, especially Britain, and the pound sterling was a currency of primary importance in Asia. In other words, the pound sterling was given the status of 'key currency' in Asia. Therefore, the depreciation of the currencies of major Asian countries (who used the silver standard) against the pound sterling increased their exports to Britain and other European countries (who used the gold standard).

As a result of the depreciation of silver, Asian countries with the silver standard experienced high inflation and interest rates. Imports from European countries with the gold standard became more expensive at a time when most Asian countries required capital goods, such as machinery, steel, and locomotives, for achieving economic development. However, although the depreciation of silver generally increased inflation and interest rates, the expansion of international trade between Asian and European countries also promoted intra-Asian trade and allowed closer connections among Asian economies.

Asian countries' authorities chose to stabilise their currencies against the pound sterling at different moments. The governments of most Asian countries had to address each country's problems, and their reactions were different. The remainder of this section describes how each country' authorities tried to stabilise their currencies against the pound sterling and established currency systems that were compatible with the international gold standard adopted by Britain.

(1) British India[3]

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have cheaper access to the international markets. Obstfeld and Taylor (2003) confirmed Bordo's and Rockoff's argument by using various data and improving their conclusion. Mitchener and Weidenmier (2015) focused on gold-denominated debts and local currencies-denominated debts and analysed various financial risks. Similarly, Ferguson and Schularick (2012) addressed several financial risks. Although Mitchener and Weidenmier argued that currency risk and country risk could be separated, Ferguson and Schularick contended that the various financial risks were mixed and not possible to separate. Flandreau and Maurel (2005) and Lopez-Cordova and Meissner (2003) also argued that the gold standard contributed to expanding international trade with countries and colonies adopting the gold standard. In particular, the adoption of the gold standard reduced various transaction costs and risks of exchange-rate instability. Bordo and Schwartz (1999) argued that the instability of the currency systems and the suspension of the convertibility generated severe financial crises even after the adoption of the gold standard. However, in this context, Asian colonies and countries were outliers. Before 1914, these colonies and countries were neither affected by any financial crises nor forced to suspend the convertibility because of the adoption to the gold-exchange standard.

[3]It relies primary on Takeshi Nishimura's research (Nishimura 2003). The other researches are referred to in the writing of this chapter as well. Keynes (1913), Shirras (1920), Spalding (1920), de Cecco (1974), Inoue (1994).

In the 1870s, the decline in the value of silver at the London silver market had a significant impact on Asian countries and colonies that had adopted the silver standard. British India (India, henceforth, in this section) was probably the country most hit by the silver depreciation, and the fluctuation of the exchange rate between the rupee and the pound sterling was a matter of great concern for both India and Britain.

The depreciation of silver made primary commodities cheap to buyers in the gold standard countries and largely contributed to expanding Indian foreign exports. The expansion of foreign trade also stimulated the inland, coastal, and land-frontier trades all over the Indian subcontinent. However, at the same time, the silver depreciation made products imported from the gold standard countries, mainly Britain, expensive to Indians and harmed imports to India. Another pressing issue was the decrease in capital exports from Britain to India. Investors feared that their return would not be paid in full. In addition, the silver depreciation also had a negative impact on the 'Home Charge'. The Indian government was forced to pay Britain for several kinds of administrative and military costs. As the Indian government paid the 'Home Charge' in the pound sterling, the silver depreciation increased the financial burden of the Indian government's budget and caused the rupee to fall, thus becoming burdensome for the Indian administration.

Soon after the beginning of the silver depreciation, some officials and financial merchants began suggesting that India should abandon the silver standard and immediately adopt the gold standard. However, they realised that the stability of the exchange rate between the rupee and the pound sterling under the international agreements was a primary concern. At the second international monetary conference held in Paris in 1878, the USA raised this issue and declared the introduction of international bimetallism. The discussion on the monetary standard to be introduced by the Indian government continued among merchants, officials, and politicians both in India and in Britain. However, although several institutions, such as the Bengal Chamber of Commerce, the Bimetallism League in Manchester, and the India Office in London, showed concern, no substantial and concrete action was taken until 1892. The fourth international monetary conference held in Brussels in 1892–93 failed to introduce international bimetallism, and the Indian government decided to adopt a new monetary standard based on gold and stop free silver coinage. In 1892, a committee of seven members (chaired by Lord Herschell) was constituted by the British Parliament and submitted its final report to the Parliament on 31st May of 1893. In its report, the committee members suggested the introduction of the gold standard and pegging the exchange rate between the pound sterling and rupee at 15 rupees per pound sterling. The Indian government immediately accepted this suggestion and suspended the free coinage of silver. The target of the exchange rate between the rupee and the pound sterling was announced at 15 rupees per pound sterling.

Initially, the exchange rate between the rupee and the sterling fluctuated violently. In 1898, the exchange rate gradually settled down around the level of 15 rupees per pound sterling. In the same year, a committee for discussing the monetary standard to be introduced in India was arranged in the Parliament. H. Fowler became the chairperson of the committee and pushed the discussions towards the adoption of a gold standard with gold currencies in circulation. Although A. M. Lindsay, the vice president of the Bengal Presidency Bank and a prominent Ricardian, strongly favoured the establishment of a gold standard without gold currencies in circulation, most members of the committee insisted on the introduction of a gold standard with gold currencies in circulation. Hence, the final report of the committee also suggested the introduction of a gold standard with gold currencies in circulation and sovereign legal tender in India. However, the attempts to introduce the sovereign as circulating coins failed. They were quickly returned to government treasuries, thus leading to a shortage of silver rupees. The general public requested silver rupees, not gold coins. Thus, the government decided to produce silver rupees again in 1900. The introduction of new silver rupees generated a significant profit for the government, and it was generally recognised that the rupee, augmented with government notes denominated in rupee, would be the best medium of exchange for the Indian general public. In other words, merchants in India, who exported primary commodities to gold standard countries, received payments in silver in nominal value, but the government only had to pay for the metallic value of the silver rupees plus the cost of coinage. These profits were accumulated in the Gold Standard Reserve, part of which was held in gold in London. This reserve played an essential role in handling foreign transactions.

However, gold was not used as the primary medium of exchange in foreign payments between India and Britain. When the importers in London had to remit money to India, they purchased council bills from the India Office and sent them to India. Since importers paid in pound sterling, these profits were accumulated in the Gold Standard reserve in London. The merchants accepted council bills from London, brought them to the Indian government, and demanded that the government convert the council bills into silver rupees or government notes denominated in rupees. Hence, the reserve was stocked with profits from the coinage of silver rupees and the profit from the purchase and sale of council bills. Both the India Office in London and the government of India tried to manage the number of silver rupees and government notes denominated in rupee in circulation in India through the purchase and sale of council bills and silver by the currency reserves.

The reserve rapidly increased because the exports from India expanded and generated large profits for the Indian economy. Conversely, if a decline of exports and appreciation of silver prices occurred at the same time, the reserve would immediately shrink. For instance, in 1907, when panic occurred, the world trade shrunk, the silver price peaked, and the reserve also shrunk. However, as the Royal Commission in the Parliament pointed out, the monetary system of India succeeded in stabilising the exchange rate between the rupee and the sterling and controls the money supply in India.[4] Certainly, the Indian economy prospered between 1900 and 1913.

[4]The final report of the Royal Commission (chaired by Sir. A. Chamberlain) contended that the gold-exchange standard was the most efficient monetary system for the Indian economy. This argument was mainly supported by J. M. Keynes. At the Royal Commission, Keynes also stressed the importance of establishing a central bank in India. The Reserve Bank of India was founded in 1935, and the Imperial Bank of India was founded in 1921. Keynes realised the potential of the gold-exchange standard as the world monetary system, in the spirit of the Bretton Woods Agreements.

(2) China[5]

In the mid-nineteenth century, various kinds of silver taels and subsidiary coins were circulating in China.[6] These currencies had no standard weight and fineness because various local authorities and merchants issued and supplied them to the local economy. Particular silver taels were only accepted by the unit in specific areas. Therefore, silver currencies were generally accepted as a medium of exchange by the weight and fineness, and silver taels were not considered legal tender.

After the Opium Wars, many foreign merchants visited major Chinese cities open to foreign trade (the so-called treaty ports) and began doing business with Chinese merchants. Foreign trade and financial transactions were generally settled with silver bullion in the form of Mexican dollars. The Chinese merchants recalculated their foreign payments based on the silver weight and fineness compared to the Haikwan tael.

During the second half of the nineteenth century, China experienced excess exports over imports (although with some exceptions). A large number of Mexican dollars were imported into China through the country's foreign trade surplus. Most Chinese merchants accepted them as a medium of exchange because the variation in the weight and fineness of Mexican dollars was much smaller than that of silver taels issued in China (Miyashita 1990, Chap. 12).

Because a large number of Mexican dollars was imported into China, most provinces, especially those located in the southern part of the country, decided to introduce an original silver dollar to replace the Mexican dollars. However, because the weight and fineness of the original silver dollars were often suspected, they were barely accepted outside the regions where they were issued.

At the beginning of the twentieth century, China had close trade connections with most European countries but also other Asian countries and colonies. China had already played a significant role in the development of intra-Asian trade at the beginning of the twentieth century. Before the outbreak of the First World War, most countries and colonies in Asia established a gold-exchange standard, and more than half of the foreign trade financing operations of the intra-Asian trade were settled using the pound sterling. However, China and Hong Kong did not adopt the gold-exchange standard and survived as silver-using areas. Foreign monetary experts, mainly the British and Japanese, pushed for the adoption of the gold-exchange standard before the outbreak of the First World War.

[5]It relies primary on the following researches. Vissering (1914), Kann (1928), Yang (1952), Miyashita (1990), Hamashita (1990), Kuorda (1994), Shiroyama (2009), Horesh (2014).

[6]Subsidiary coins mainly consisted of copper and bronze. The amount of nickel and other materials' coins in circulation was smaller than that of copper and bronze. Although gold also circulated in China, the amount of gold in circulation was much smaller than that of silver. Local authorities and merchants issued and supplied paper monies to local economies. After the establishment of the international banks at the open ports of China, these banks began issuing their original banknotes and used them for settling economic transactions between foreign and Chinese merchants. However, the number of these banknotes was much smaller than that of silver, and banknotes did not penetrate the hinterlands of China.

However, the central government of China did not have strong authority and experienced difficulties in implementing any monetary reforms. As is well known, after the Boxer Rebellion in 1900 and the military intervention by the Eight-Nation Alliance, not only the political situation but also the economic and commercial activities in China were substantially chaotic. The Xinhai Revolution broke out in 1911 and worsened economic and commercial confusion. The political instability and the frequency of civil wars all over China caused stagnation in the country's economic and commercial development and made nation-wide monetary reforms impossible.

After the Xinhai Revolution, in 1912, the government of the Chinese Republic led by Sun Yat-sen was forced to close the private mints in China, especially in Canton and the southern provinces, and tried to converge the various currency systems present in the country under a single currency system established by the central government. However, these monetary policies were not fully implemented because most local and regional powers had their own military and, initially, did not obey the central government's orders. In 1927, the new government established by Chiang Kai-shek promoted further improvements of the currency system controlled by the central government. In 1933, the central government decided to demonetise all taels and ordered all transactions, and especially those carried out by the government, to be settled in yuan. At the same time, during the first half of the 1930s, the fluctuation of silver prices affected silver circulation all over the world, with a significant impact on the trade between the USA and China. This phenomenon caused the government to accelerate currency reforms. In 1935, the Chinese government decided to peg the yuan to the pound sterling. Although neither the central government of the Chinese Republic nor the past government and authorities officially declared that the Chinese currency system was a silver standard, the Chinese currency system was and remained substantially linked to a silver standard until the monetary reform in 1935. Hence, the Chinese currency system had no formal experience in adopting a gold standard with gold currencies as the primary medium of exchange in the local and regional markets.

(3) Hong Kong[7]

Hong Kong became a British Colony in 1842, following the treaty of Nanking. In 1861, the peninsula of Kowloon was ceded to Britain and began being administered as a portion of the Crown Colony of Hong Kong. Because an overwhelmingly large amount of Chinese lived in Hong Kong even after the establishment of the colony, the trade connections between Hong Kong and China were close, and Hong Kong's currency was meant to harmonise with Chinese ideas and requirements (Kann 1928, p. 243).

In 1842, Sir H. Pottinger issued two currency proclamations in which he declared that the value of the many silver dollars in circulation, such as the Mexican dollar, in terms of rupee was stabilised and made them a legal tender of the currency system

[7]It relies primary on Takeshi Nishimura's research (Nishimura 2009). The other researches are referred to in the writing of this chapter as well. Kann (1928), King (1957), Zhang (2001).

of Hong Kong. Because most merchants in Hong Kong used such silver dollars as a medium of exchange in local and regional markets, the stabilisation of the value of the silver dollars was crucial for the colonial government. After the silver dollars became a legal tender, they were immediately used for several kinds of commercial and governmental transactions.

In 1845, Sir J. F. Davis, the Governor of the colony, declared that the pound sterling was the only unit of account in Hong Kong and fixed the values of the silver dollars, various copper and bronze small monies, the silver rupees, and the gold mohurs issued by the EIC in terms of the pound sterling. The gold currencies had not been circulating in Hong Kong before, and most Chinese merchants did not accept them. As most Chinese merchants used the silver dollars by the weight in their daily transactions, the colonial government could not make them the token coins in the new currency system. The attempts to shift the colony's currency system to the gold standard did not succeed. In 1853, the colonial government declared the establishment of the gold standard in Hong Kong and limited the status of silver dollars as a legal tender. This declaration caused significant confusion in the circulation of silver dollars in Hong Kong and caused fluctuations in the value of the silver dollars. In addition, the introduction of sovereigns, in 1857, had almost no effect, and most merchants in Hong Kong appealed to the government to stabilise the value of the silver dollars.

In 1862, to correct the confused monetary situation, Sir H. Robinson declared that all accounts of the colonial government were to be kept in dollars. In the following year, the colonial government declared the intention of returning to the silver standard and gave the silver dollars the status of unlimited legal tender. The colonial government officially returned to the silver standard in 1865. However, some officials and merchants in Hong Kong pointed out that the dependence on foreign silver dollars destabilised the currency system of Hong Kong, and they requested to build a new mint in Hong Kong for maintaining the supply of silver dollars minted by the British authorities. In 1867, the Hong Kong mint was open and began supplying new British silver dollars (the Hong Kong dollar, henceforth). The Hong Kong mint coined approximately HK$ 2,108,504, but, at first, the Hong Kong dollar was not a success and traded at a 1% discount (King 1957, p. 102). Most Chinese merchants did not accept it as a medium of exchange because the traditional customs mainly traded dollars based on their silver contents. As a result, the Hong Kong mint was closed in 1869, and its machines were sold to Japan and sent to Osaka. These machines were used to establish the first modern mint in Japan and contributed to export a large number of Japanese silver yen to all over China and Southeast Asia at the end of the nineteenth century (Yamamoto 1994, Chap. 4).

In 1895, the British authorities of the colonial office in London decided to begin minting a new silver dollar, which was similar with the Mexican dollar, at Bombay and Calcutta (the British dollar, henceforth). The new silver dollars were supplied to the British colonies in Southeast Asia and the treaty ports of China, such as the Straits Settlements and Hong Kong. The colonial government also added the British dollar to the list of legal tender currencies in the colony.

In Hong Kong, most merchants and the general public mainly used subsidiary coins, such as copper and bronze small monies, as a medium of exchange in their daily economic and commercial transactions. The whole issue of the subsidiary coins amounted to HK$ 21,264,370 according to the Hong Kong Blue Book published in 1918, and large quantities of these subsidiary coins were exchanged at par in the southern provinces of China. Ten-cent pieces for a face value of HK$ 5,028,000 were shipped to England for the purpose of their denomination in 1916 (Kann 1928, p. 245). At the beginning of the twentieth century, the Chinese private mints equipped with modern machines purchased from Europe, mainly established in Canton, supplied large quantities of subsidiary coins similar to those issued by British authorities. A large amount of the subsidiary coins supplied from England immediately disappeared in Hong Kong. Therefore, the colonial government decided to cease further issues of its own subsidiary coins in 1905.

Although the banknotes circulating in Hong Kong had not been legal tender, they played a crucial role as a medium of exchange in most commercial transactions of any size in Hong Kong.

The Hongkong and Shanghai Banking Corporation (the HSBC, henceforth) had the right to issue its own banknotes under the Ordinance No. 2 of 1866. The right of the banknote issue was authorised by the Royal Charter or local ordinances. Each bank's right of banknotes issue was authorised by an original charter or ordinance. The right was limited to an amount that did not exceed the value of the bank's paid-up capital. However, as most merchants in Hong Kong needed large amounts of banknotes as a medium of exchange, by the end of the nineteenth century, the bank overissued its banknotes or allowed an excess of banknotes issue. The number of banknotes issued by the bank was sufficient to accommodate the currency needs of the merchants in Hong Kong (see Table 1). Banknotes were issued in denomination of five dollars or multiples. A debate regarding one-dollar banknotes began just after the closure of the Hong Kong mint due to the shortage of small monies as a medium of exchange. Using its emergency power, the colonial government authorised the HSBC to issue a limited number of one-dollar banknotes to alleviate the currency shortage, and HK$ 226,000 worth of one-dollar banknotes were issued (King 1957, pp. 103–104). However, although many merchants, officials, and bankers continued to have discussions regarding the introduction of the one-dollar banknotes, with opposite opinions, the colonial government did not officially introduce the one-dollar notes until 1935 (King 1957, p. 104).

Table 1 Local note issue in Hong Kong (HK dollars)

Bank	1881	1891
Oriental Bank Corporation	807,133	0
Chartered Mercantile of India, London and China	649,568	1,438,745
Chartered Bank of India, Australia and China	589,388	1,382,665
Hongkong and Shnghai Banking Corporation	1,640,290	3,078,447

Source King (1957), p. 103

(4) Straits Settlements[8]

The Straits Settlements comprised Singapore, Penang and Malacca and, in 1867, were transferred from the control of the Indian government to the British colonial office. The Indian silver rupee had been legal tender in these areas until 1867. However, the number of Mexican dollars and several kinds of Spanish dollars in circulation was much larger than that of the Indian rupees because most Chinese merchants, who substantially controlled the economic and commercial transactions in the Straits Settlements, used them as a means of payments, remittances, and hoardings. In the same year, the colonial office decided to introduce a new silver dollar (the Hong Kong dollar) not only into the Straits Settlements but also into other British colonies and spheres of influences in Southeast Asia. The new silver dollar was minted in Hong Kong. The colonial office made the Hong Kong dollar, Mexican dollar, and several kinds of Spanish dollars a legal tender in these areas. However, the mint in Hong Kong was closed in 1869. Since the Hong Kong dollar contained a more pure silver than other silver dollars in circulation in Asia, most Hong Kong dollars in circulation were collected and sent to China as bullion. Therefore, the colonial office was forced to close the mint.

As mentioned above, Chinese merchants played a fundamental role in the economic and commercial activities in this colony. The Straits Settlements had close trade connections with China. In addition, the Straits Settlements had introduced free trade cities since the establishment of the colony. As a result, the colony was open to all over the world as a free trade port, and these areas continuously battled with a shortage of currency. In 1895, the colonial office decided to introduce the new British dollar to the collection of dollars in circulation in the Straits Settlements and started to mint it in Bombay and Calcutta. At the same time, the new British dollars became legal tender of the Straits Settlements and were also sent to Hong Kong and the treaty ports in the east coast of China. After the exports of the new British dollars from Bombay to the Straits Settlements began, the colonial office decided to revoke the status of legal tender of the American trade dollar and the Japanese yen through the orders in council of 1895 and 1898, respectively.

The adoption of a gold standard was discussed in 1893 at the local committee of the government in Singapore. The monetary shortage of the colony and how the colony had to tackle the monetary issues caused by the abandonment of the silver standard of British India were becoming pressing issues. The adoption of a gold standard was considered because the importance of the pound sterling as an international currency used in settlement of accounts between Asian countries and the colonies was rapidly increasing, thus facilitating the expansion of the trade relations with gold standard countries (mainly European countries). However, for reforms to be effective, the government required its own currency. In 1897, the Singapore chamber of commerce appealed to immediately introduce a gold standard into the colony as well as the paper currency issued by the government. Until then, several international banks

[8] It relies primary on Takeshi Nishimura's research (Nishimura 2005). The other researches are referred to in the writing of this chapter as well. Kemmerer (1916), Nelson (1987) .

with branches and agencies in the Straits Settlements had issued original banknotes under the existing regulations. However, local and regional merchants in the colony, mainly Chinese, did not accept positively them as means of payment in economic and commercial transactions. The Singapore chamber of commerce requested to introduce the new paper currency authorised by the government to end the shortage of currency in the colony. Therefore, the government and the colonial office began issuing government notes backed by the value of the silver dollars.

In 1902, the colonial office finally decided to adopt the gold standard. At first, the colonial office established a selected committee in the Parliament in London. David Barbour who had played a fundamental role in the currency reform of British India in the 1890s became the chairperson of the committee. He had Ricardian views and firmly believed in the need to adopt the gold standard in the Straits Settlements. Hence, the conclusion of the final report of the committee suggested the introduction of a gold standard in the colony. The government and the colonial office accepted this suggestion and implemented it immediately in 1903.

At first, the government decided to introduce a new Straits dollar and prohibited to import old silver dollars to and export the new Strait dollar from the colony. The government promoted the demonetisation of old silver dollars to give the status of legal tender to the new Strait dollar, which became the only legal tender in the colony. The new Strait dollars were minted at Bombay and sent to the colony. Other subsidiary coins were minted at the Royal Mint and sent from London to the colony. The government decided to target the exchange rate between the Strait dollar and the pound sterling towards a pegged rate of 2 shilling per Strait dollar.

Since 1899, the government had a substantial currency note reserve, the Note Guarantee Fund, consisting of securities denominated in the pound sterling, such as the British consols, Indian public debts, and the Transvaal public debts, and old silver dollars against which currency notes were issued, as authorised by the government. The reserve was used for recoinage from the old silver dollar to the new Strait dollar and the redemption of old silver dollars in circulation. The replacements were smoothly carried out and mostly completed by 1904. The government had to formally set the exchange rate between the pound sterling and the Strait dollar. While the government expected to peg the exchange rate to 2 shilling per the Strait dollar, silver appreciated during the years, thus making it difficult to peg 2 shilling per the Strait dollar. In the second half of 1905, the metallic value of the Strait dollar approached the nominal value of the dollar several times. Hence, the government decided to peg the exchange between the pound sterling and the Strait dollar to 2 shilling 4 pence per the Strait dollar and began the recoinage of the Strait dollar to a new Strait dollar that contained a smaller amount of pure silver than that of the previous Strait dollar.

The colonial office and the government did not consider establishing a separate gold-exchange reserve. Importers in Britain deposited sovereigns, based on which the Note Guarantee Fund issued government notes to exporters in the colony. The fund began to hold part of its gold reserve in London and acted as a gold-exchange fund. In 1908, the fund was normally functioning as a Gold Reserve Fund and incorporated the profits earned by the government from the recoinage of the new Strait dollar.

This fund was not an official gold-exchange reserve but positively contributed to stabilising the exchange rate between the pound sterling and the Strait dollar when necessary. In other words, the government and the colonial office could manage the supply of government notes and the stabilisation of the exchange rate between the pound sterling and the Strait dollar by efficiently using the fund. Substantially, the functions of the gold-exchange standard had been established by 1908 without the authorities' explicit political intention.

(5) Dutch East Indies[9]

In the mid-nineteenth century, the Dutch guilder was defined as a legal tender by the Dutch colonial government. The situation of the currencies in circulation in the Dutch East Indies was confused. The silver guilder was still in circulation, but most guilders were hoarded and exported to other Asian colonies and countries through the intra-Asian trade and the Chinese and Indian remittance networks. Copper coins and silver certificates also circulated in the colony.

In the 1850s, the colonial government decided to import a large amount of silver guilder from the Netherlands and supply them to the markets in the colony. The replacement of the silver certificates with the silver guilder all over the colony was proposed. The silver certificates were public debts that the colonial government was required to pay by law. Since the silver certificates were issued by the Java Bank, most users utilised them as a primary medium of exchange in the colony. The silver certificates were exchanged with other currencies at the equivalent rate (Inoue 1926 pp.13–28)

However, the continuous imports of silver guilder from the Netherlands were of fundamental importance for the sustainable development of the new currency system in the colony. The colonial government had no intention to prevent the continuous outflow of the silver guilder. As well known, until the mid-nineteenth century, most colonies and countries in Asia had been primarily using silver, and silver currencies were the primary medium of exchange in Asia. However, most of the silver used in Asia was imported from the USA, Mexico, and South America via European countries. Therefore, the silver-using colonies and countries had to accumulate a large amount of silver within their own reserves. As the Dutch colonial government did not prevent the outflow of the silver guilders, the other silver-using colonies and countries in Asia absorbed a large number of silver guilders as bullion. The considerable trade surplus of the Dutch East Indies with the Netherlands guaranteed continuous imports of silver guilder to the Dutch East Indies.

After the end of the Franco-Prussian War, the German government adopted the gold standard with gold currencies in circulation. The free silver coinage was suspended, and in 1873, the silver currencies were withdrawn from circulation. Close economic and commercial relations existed between Germany and the Netherlands, and this political decision of the German government forced the Dutch government

[9]It relies primary on the following researches. Vissering (1914), Spalding (1920), Helfferich (1921), Inoue (1926), Matsuoka (1936), Vissering (1941), Gonggrijp (1943), van Laanen (1983), Potting (1987), Kuitenbrouwer (1991), van der Berg (1996), van der Eng (1999).

to consider a dramatic change. However, the trade connections between the Netherlands and the Dutch East Indies were essential for the development of the Dutch economy. A shift in the Dutch currency system from the silver standard to the gold standard was expected to cause economic disruption if not accompanied by a change in the currency system of the Dutch East Indies. In 1873, the Dutch government suspended the free silver coinage, and in 1875, the gold ten guilder was introduced as legal tender. The Dutch currency system could be legally defined as bimetallism. However, since the free silver coinage was stopped, and the gold value of the silver guilder was guaranteed by law, the Dutch currency system was de facto a gold standard (Inoue 1926 pp. 29–34; Gonggrijp 1943 pp. 216–217; van der Eng 1999 p. 64).

In 1877, the Dutch colonial government introduced the gold standard into the Dutch East Indies. Although the Dutch government worried about the stabilisation of the gold value of the silver guilder before the adoption to the gold standard, the Dutch colonial government pushed for the adoption of the gold standard. Hence, the guarantee that the Dutch government would stabilise the gold value of the silver guilder was extended to the Dutch East Indies, which became the first colony to adopt the gold standard in Asia. After the reform, no significant fluctuations between the metallic value and the nominal value of the silver guilder occurred. Most merchants in the colony accepted the silver guilder as a medium of daily exchange without any premium. Although some small merchants, especially Chinese, used and accepted the silver guilder as bullion, most merchants in the colony accepted the silver guilder as the primary medium of exchange in their daily economic and commercial transactions. Although the gold guilder was given the status of legal tender in this colony, only a few merchants accepted it in their daily economic and commercial transactions because its value was too high for the majority of the general public. As a result, the gold guilder did not circulate in this colony (Inoue 1926 pp. 35–40).

The Java Bank played a key role in the stabilisation of the new currency system in the Dutch East Indies. Although the Java Bank was established as a private bank, it was given privileges and obligations by the Dutch colonial government (Javasche Bank 2015). The Java Bank regulated the currency circulation in this colony through its monopoly on the issue of the banknotes and settled the exchange rate of the guilder in the colony at par with the guilder in the Netherlands. In addition, the colonial government promised to use the Java Bank for all its foreign transactions and allowed the bank to maintain a part of its reserves in Amsterdam. As a result, the Java Bank did not need to compete with other international banks, such as the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia and China, for foreign bills of exchange, although the bank did not have the legal right of monopoly on the foreign transactions of the colony. In this period, the Dutch colonial government kept the biggest share of the foreign exchange market in this colony, and even after the amount of private foreign transactions in the colony became larger than that of the governmental foreign transactions, the Java Bank sustained its unique position in the Dutch East Indies.

During the second half of the nineteenth century, transportation works and the communication networks significantly improved thanks to various technological innovations. With the improvements of transportations and communications, the costs of shipment of guilders from the Netherlands to the Dutch East Indies were less than one per cent of the nominal value of the silver guilder, and the exchange rates fluctuated by less than one per cent either way. Hence, the Java Bank stabilised the exchange rate of the guilder in the colony at par with the guilder in the Netherlands through the shipment of gold to the colony as part of its monopolistic business. Later, the task of stabilising the exchange rate was left to the Dutch Central Bank (van der Eng 1999 p. 64).

The Java bank maintained gold reserves in Amsterdam for foreign payments and stabilising parity. However, because the rapid expansion of the foreign trade with not only the Netherlands but also other colonies and countries significantly accelerated in the 1880s and the 1890s, the bank could not operate foreign trade financing only in Amsterdam. Therefore, the Java Bank established a gold reserve in this colony and began assisting the Dutch Central Bank in stabilising the guilder at par with gold.

At the end of the nineteenth century, stabilising the guilder at par with gold was the main business of the Java Bank, which also monopolised the banknote issue in this colony. These banknotes were accepted by the majority of the general public as a medium of exchange in the daily economic and commercial transactions, and at the end of the nineteenth century, the currency system in the colony was relatively stable. The establishment of direct connections between the banknote issue operations and the foreign exchange operations promoted the expansion of various financial transactions, and the Java Bank played a central role in the currency system by managing these operations in the colony (Gonggrijp 1943 pp. 219–221; van der Eng 1999 pp. 64–65).

As well known, the Dutch East Indies consisted of many islands. The currency system regulated by the Dutch colonial government was not immediately adopted by the outer islands, such as the east coast of the Sumatra Island. At the beginning of the twentieth century, the Mexican dollars and the Straits dollars were still circulating on the east coast of the Sumatra Island. Most merchants and workers in this area had close relations with the Straits Settlements. Therefore, they needed to use the currencies circulated in the Straits Settlements as a medium of daily exchange. However, after the currency reforms of the Straits Settlements and the recoinage of the Straits dollars in 1906, a large number of silver currencies on the east coast of the Sumatra Island were exported to mainland China through the remittances of Chinese merchants and smoothly replaced by the guilder. The currency system regulated by the Dutch colonial government and administered by the Java Bank obtained full penetration all over the Dutch East Indies just before the outbreak of the First World War.

(6) Siam[10]

At the beginning of the nineteenth century, both gold and silver currencies circulated in Siam. Most currencies were not in the shape of a coin, and several kinds of shapes of silver and gold currencies circulated and were used as means of exchange.

[10]It relies primary on the following researches. Icard (1912), Ingram (1971), Brown (1979), Brown (1992).

In 1861, the king founded a small mint in his palace and started to mint his original silver and gold currencies. However, because most gold currencies were hoarded or melted and used for various ornaments and Buddhist memorial services, gold currencies gradually disappeared from circulation, and only silver currencies circulated in Siam by the 1870s. Therefore, the value of the baht became closely connected with silver prices.

After the silver depreciation against the pound sterling in the 1870s, the baht significantly weakened against the pound sterling. Rice exports to other Asian countries, mainly the Straits Settlements and Hong Kong, and exports of other primary commodities, such as teak and sugar, to European countries rapidly increased and generated a large trade surplus in Siam. The Siamese economy grew rapidly, and the economic development caused a shortage of currencies to settle economic and commercial transactions within Siam. The British consul in Bangkok suggested that Siam accepted both domestic and foreign silver currencies, such as the rupee and the Mexican dollar, as legal tender. The king accepted the British consul's suggestion, and the new foreign currency act was promulgated. As a result, various silver currencies began flowing into Siam, and most foreign currencies were exchanged for the baht at a relatively stable rate.

Siam maintained a large trade surplus after the establishment of new infrastructures in the delta of the Chao Phraya River, such as the irrigation infrastructure and the railway networks all over Siam in the 1880s and 1890s. Rice exports to Asian countries contributed to developing the intra-Asian trade and primary commodities, such as teak and sugar, exported to European countries played an important role in the international division of labour in the world economy. Therefore, a large number of silver currencies, included silver bullion and ingot, continued flowing into Siam. Because the Siamese government had not restricted the inflows and outflows of silver, the trends of exports and imports of silver were directly influenced by the silver standard price at the London silver market. These silver deals were mainly conducted by European international banks and trading companies.

In 1888, the Hongkong and Shanghai Banking Corporation set up an agency in Bangkok. In 1894, the Chartered Bank of India, Australia, and China also established its agency in Bangkok, and the Banque de l'Indochine established its agency in Bangkok in 1897. These three European international banks dominated both the foreign trade financing operations and the Siamese government's international transactions with foreign countries and merchants. These three international banks also had the rights of banknotes issue and began issuing their original banknotes just after the establishment of their agencies. However, the new banknotes were not accepted positively by the public and only circulated around Bangkok. Although the Siam Commercial Bank was established in 1908, these three European international banks dominated the Siamese finance until the First World War.

In 1899, British financial advisers recommended the government to stabilise the exchange rate between the baht and the pound sterling. A fall in the exchange rate of the baht against the pound sterling contributed to expanding the exports of rice and various primary commodities from Siam to various European countries. However, the depreciation of the baht caused a decrease in capital imports from European countries with the gold standard for the establishment of infrastructures such as railways and irrigation infrastructures. British financial advisers pointed out this problem. However, initially, the government did not introduce a reform of the currency system. In 1902, the baht fell to a record low against the pound sterling, and the government finally abandoned the silver standard and stopped free silver coinage.

The free coinage of the baht was suspended, and the exchange rate between the pound sterling and the baht was fixed. The government decided to release 17 baht for the pound sterling in Bangkok because, before the introduction of the fixed exchange rate, the baht was trading at a rate of 21.70 to the pound sterling (Ingram 1971, pp. 152–153). Most foreign traders who exported primary commodities from Siam to European countries were seriously damaged, and the Siamese foreign trade was severely hit. The three international banks, the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia, and China and the Banque de l'Indochine, pressured the government, which raised the exchange rate to 20 baht to the pound sterling within a few months.

In 1902, the government adopted a de facto form of sterling exchange, which served the purpose of stabilising the exchange in gold terms, the new rate being 14.11d (Latham 1978, p. 46). At the beginning of the twentieth century, the silver price at London and other major silver markets started to appreciate. The government was set to immediately intervene on the exchange rate between the baht and the pound sterling if the metallic value of the baht rose above the nominal value of the baht. To stabilise the exchange rate, the government intervened sixteen times until January 1908. As the appreciation of silver prices continued, the government also had to prevent the outflow of silver as bullion for securing the amount of silver in circulation in Siam. However, the silver price appreciation did not accelerate the expansion of rice exports from Siam. Rice exports mostly depended on climate changes, mainly the monsoon. In January 1908, the government formally decided that the baht was pegged at a rate of 13 baht per pound sterling (Ingram 1971, p. 153).

The Siamese currency system adopted the silver standard until 1902, but the government did not manage to stabilise the exchange rate between the baht and the pound sterling. The Siamese government did not formally establish its own gold-exchange reserves until 1908. Until the baht formally pegged at a rate of 13 baht per pound sterling, in 1908, the three European international banks, the governmental financial officials, and British financial advisers had informal authority to arrange this matter. As mentioned above, the Siamese economy at the beginning of the twentieth century was strongly dependent on rice exports, and the surplus of rice exports contributed to stabilising the exchange rate between the baht and the pound sterling. In 1907, due to an unexpected decrease in the rice harvested, the surplus of rice exports decreased, and the reserves in pound sterling in London also decreased rapidly. To immediately address this situation and achieve the stabilisation of the exchange rate between the baht and the pound sterling, the government introduced a formal gold-exchange reserve with the Gold Standard Act in 1908 (Brown 1979). The new gold-exchange reserve was set in London, and the three international banks and the British financial advisers used it to manage the gold-exchange standard. The governmental officials also contributed to managing the gold-exchange standard and stabilise the exchange rate, but their role was marginal compared to the three international banks and the British financial advisers (Icard 1912 pp. 98–100).

(7) French Indochina[11]

Before the French administration, the currency situation in the east coast of Mainland Southeast Asia (Indochina, henceforth) was chaotic. Coins of different weights, metals, and standards were contemporarily used. However, the primary trading currency was the Mexican dollar, together with the British and Spanish currencies. The French government attempted to introduce the franc, but without success. Therefore, the French government decided to supply a new trade dollar or piastre. Just after the establishment of the colonial administration in the French Indochina, the French government began paying for its expenses with silver coins in piastre. These silver coins were widely accepted. However, because most merchants, especially Chinese, collected the silver coins and sent them to China, small unit of coins, such as copper, bronze, and zinc, mainly circulated. The number of silver coins in circulation was very limited in this colony. In 1885, the government introduced a new silver coin in piastre to relieve the shortage of silver coins in foreign trade. However, the new silver coins in piastre contained a little more silver compared with the Mexican dollar and the Japanese yen. Since the government also decided to exchange the silver coins in piastre with the other silver dollars, the Mexican dollar, and the Japanese yen at par, a large number of the silver coins in piastre were substituted with other silver dollars. This outflow of the silver coins in piastre continued until the government began supplying a reformed silver coin in piastre, in which the silver content was equivalent to that of the other silver dollars (Icard 1912 pp.108–114; Nawada 1932 pp.76–84).

As silver depreciated, and most Asian countries and colonies turned to gold, many merchants who exported from France and imported to the colony were severely hit. Therefore, in the 1890s, monetary reforms and the introduction of the gold standard in the colony began being discussed. In addition, the administration was worried about the increasing cost of its contribution towards the French military occupation. Stabilising the silver price in piastre was a fundamental political matter because the colony had to pay France for the cost of the military occupation.

However, most merchants and officials did not discuss the introduction of the gold standard in the colony. A reason against the stabilisation of the silver price in piastre was that the exports from the colony mostly consisted of rice, and most rice was exported to Hong Kong and China, two silver-using areas. Hence, most merchants had no interest in moving away from silver. They appealed to the colony for maintaining the silver standard. Establishing enough funds for the gold currency was also challenging because the trade balance of the colony was only slightly positive in the last quarter of the nineteenth century.

[11]It relies primary on the following researches. Icard (1912), Spalding (1920), Nawada (1932), Pargoire (1933), Matsuoka (1936), Nawada (1942), Robequain (1955), Touzet (1956), Gonjo (1985).

In 1902, the colony decided to break the linkage between the piastre and silver. In other words, the colony introduced new measures to dissociate the domestic and external value of the piastre. After that, the colony began controlling coinage. At first, the imports of the Mexican dollar were prohibited. At the same time, the colony began to supply new silver coins in piastre. Exports of silver coins in piastre and silver bullions were prohibited in 1904, and the piastre became the only legal tender. As a result, the colony succeeded in separating the value of piastre in the domestic economy and the external trade. The Mexican dollars were substituted by the supply of silver coins in piastre by 1905 (Icard 1912 pp.112–113; Nawada 1932 pp. 92–100).

Under this regime, the rate of exchange could vary significantly depending on the colony's trade balance. When the trade balance was favourable, and foreign merchants were unable to obtain silver coins in piastre, the exchange rate rose above its metallic value. On the contrary, when the trade balance was unfavourable, the exchange rate fell below the metallic value as silver coins in piastre could not be exported to settle the accounts.

In this colony, bank lending was largely determined by the Banque de l'Indochine (Gonjo 1985 chap.2). This bank controlled a large share of the economic and commercial transactions in Saigon and Hanoi and regulated the domestic money supply by using the discount rate and the purchasing and selling of shares of companies in the colony. However, the coinage of new silver coins in piastre to meet domestic demand was monopolised by the government. The share of banknotes issued by the Banque de l'Indochine in the domestic money supply was very small, and most piastres in circulation were silver coins (Gonjo 1985 pp.184–187). This situation restricted the range of means available to regulate the domestic supply of piastres and stabilise their domestic value.

Institutionally, when a particularly bad harvest happened, a trade deficit occurred, and a large number of silver coins in piastre immediately leaked out of the colony. The metal reserves of several banks in the colony, such as the Banque de l'Indochine, fell below the statutory minimum, and these banks had to close their offices. The government requested to send silver coins in piastre from Paris as soon as possible. However, it took several months before they reached the colony. In addition, the government could not manage the fluctuations of the metallic value of silver coins in piastre and the movements of silver coins in piastre across the border. This impeded the stabilisation of the domestic value of the piastre. The authorities of the colony had significantly underestimated the movements of silver across the border.

Despite the incomplete regulations, no stakeholders gained enough consensus to address the situation, and this incomplete monetary system, neither a silver nor a gold standard, persisted until the outbreak of the First World War.

(8) The Philippines[12]

Before the outbreak of the Spanish-American War, in 1898, the Mexican dollars were the general means of exchange in the Philippines (Sudo 1988 p. 53). Due to the

[12]It relies primary on the following researches. Kemmerer (1916), Spalding (1920), Sudo (1988), Nagano (1993), Nagano (2015).

impact of the silver depreciation on the country's economy, the government decided to prohibit the imports of Mexican dollars in 1877 (Spalding 1920 p. 261). Instead of the Mexican dollars, the government supplied a new peso to the public, and the new peso became the general means of exchange in the Philippines by the end of the nineteenth century.

After the USA acquired the Philippines, the colonial government used US dollars to finance their military activities and various economic and commercial transactions. The US dollars circulated at a rate of two pesos. However, most merchants and traders in the Philippines, especially Chinese, persisted in using silver currencies with a plausible intrinsic value. Therefore, the colonial government ceased to prohibit imports of Mexican dollars to the Philippines and called for new measures.

At the end of the nineteenth century, the silver depreciation decelerated, and the demand for silver rapidly increased in China, thus causing a delay in the monetary reform in the Philippines. In 1900, the Boxer Rebellion occurred, and the Chinese government needed extra money to pay for the military assistance of the European countries, the USA, and Japan. These large expenses contributed to stabilising the silver depreciation because the Chinese government collected taxes in silver currencies.

At the beginning of the twentieth century, the colonial government introduced new silver pesos, whose weight and fineness were lower than those of old silver pesos and Mexican dollars. The new silver pesos were legally pegged to the US dollar. The old silver pesos and Mexican dollars in circulation were collected by the colonial government, which exported them as bullion. In addition, the domestic money supply was legally controlled by the scale of sales of government bonds.

However, fluctuations in the standard price of silver at the London market at the beginning of the twentieth century caused these monetary reforms in the Philippines to stagnate. Because the difference between the new silver pesos' nominal value and their intrinsic value fluctuated violently at the beginning of the twentieth century, it took until 1907 for the colonial government to collect most old silver pesos and Mexican dollars in circulation. Only then, the new silver pesos effectively penetrated all over the Philippines (Kemmerer 1916 pp.347–358).

The colonial government established the Philippines Gold Standard Funds to guarantee the external value of the new silver pesos when the gold-exchange standard was established in the Philippines. The Gold Standard Fund collected the revenues of the colonial government bonds sold in New York. These funds gradually increased, and before the outbreak of the First World War, the scale of funds achieved more than 35% of the total supply of the new pesos in the Philippines (Kemmerer 1916, pp. 365–382). Therefore, the currency system of the Philippines was effectively transformed into a gold-exchange standard by 1913.

4 The Role of the Gold-Exchange Standard in Asia

In his first academic text, J. M. Keynes contended that the gold-exchange standard was one of the most progressive and scientific currency systems. He insisted that the countries with a highly advanced financial market should manage all gold reserves, and the other countries and colonies should entrust them with the management of their own gold reserves. In other words, Keynes suggested that Asian countries and colonies should not use gold currencies as a medium of exchange and should better entrust the countries with a highly advanced financial market, such as Britain and France or their suzerain, with the management of their gold reserves (Keynes 1913, Chap. 2). However, most nationalists, mainly Indian, believed that their countries should adopt the gold standard with gold currencies in circulation and manage their gold reserve autonomously. Most nationalists realised that the gold standard with gold currencies in circulation was the most progressive currency standard, which could push their countries towards economic and political independence (de Webb 1913). The recognition that the gold standard was the most progressive currency system was shared by both the nationalists and the rulers.

As mentioned above, silver currencies played the most important role as a medium of exchange in the economic and commercial transactions in Asia until the outbreak of the First World War. Even under the gold-exchange standard and its similar currency system, a large number of silver currencies circulated in Asia. However, very few studies focused on the function of the silver currencies in circulation under the gold-exchange standard.

After the 1870s, the continuous depreciation of silver pushed most Asian colonies and countries to shift from the silver standard to the gold-exchange standard and its similar currency system. In this process, various merchants, officials, and scholars discussed how silver currencies should be defined under the new currency systems.

On the one hand, the argument against the abandonment of the free coinage of silver emphasised that the silver depreciation enhanced the exports from the colonies and countries with a silver standard in Asia to the gold standard countries. The silver depreciation notably enhanced the exports of primary commodities, such as wheat and raw cotton, from Asia to Europe. However, in this period, the exports of primary commodities to other countries and colonies in Asia also rapidly expanded.

On the other hand, the argument for the adoption of the gold standard emphasised that the silver depreciation caused violent fluctuations in the exchange rate between the pound sterling and the currencies circulating in Asia. These fluctuations of the exchange rates enhanced the costs in terms of silver and prevented the capital exports from Britain and the other European countries to the colonies and countries in Asia. In addition, some colonial governments collected taxes in terms of silver but were required to expend their tax revenues in terms of gold on their colonial administrations. Typical examples were the ‘Home Charge’ in British India and the French military costs in the French Indochina. Hence, in some cases, the silver depreciation forced the general public to pay more taxes and caused inflation. The abrupt inflation significantly increased the general public's cost of living, thus favouring the argument for the abandonment of the free coinage of silver.

Most colonies and countries in Asia introduced monetary reforms and tried to stabilise their currency systems as a result of the silver depreciation. Between the end of the nineteenth century and the beginning of the twentieth century, most colonies and countries adopted the gold-exchange standard and its similar currency system and legally maintained the circulation of silver currencies. Their general public used silver currencies as the primary medium of exchange in economic and commercial transactions. Local and regional rice merchants in Bangkok did not use banking services but exclusively paid in silver currencies. The rice merchants were mainly Chinese and exported rice to Singapore and Hong Kong. Although the colonial government of the Straits Settlements introduced the new currency standard in 1908, the local and regional rice merchants had no interest in using the banking services as a medium of settlements. As previous studies suggested, local and regional merchants, mainly Chinese and Indian, played a more essential role in the expansion of the intra-Asian trade than European merchants. The transformation of the currency systems of the colonies and countries in Asia stabilised the exchange rates between the pound sterling and their own local currencies, thus facilitating the exports to the countries with the gold standard. However, as the silver currencies in circulation were not eliminated under the gold-exchange standard, the local and regional merchants could easily use them in the intra-Asian trade. Therefore, the introduction of the gold-exchange standard largely contributed to the development of the economies of the colonies and countries in Asia by allowing them to maintain silver currencies in circulation, thus avoiding a large number of gold currencies to circulate.

The pound sterling was a 'key currency' for the Asian economies at the beginning of the twentieth century and contributed to significantly decreasing the financial transaction costs. A large number of silver currencies with their value expressed in terms of the pound sterling circulated all over the colonies and countries in Asia and contributed to creating closer economic and commercial relations between local and regional merchants and European merchants. This was one of the most important reasons for the rapid expansion of the intra-Asian trade at the beginning of the twentieth century.

5 Conclusion

The currency circulation in British India was much more extensive than in the other colonies and countries in Asia between 1900 and 1913. In 1900, the currencies in circulation in British India amounted to £ 101.4 million, while those in the Dutch East Indies totalled £ 14.49 million. In 1913, the figures were £ 158.6 million and £ 19.01 million in British India and the Dutch East Indies, respectively, and £ 5.70 million in the Straits Settlements (Nishimura 2014 p. 321, 356, 370).

Table 2 reports a comparison between the money supply of each country and colony in Southeast Asia (US dollar per capita, ten-year averages). An accurate

Table 2 Supply of money, 1890–1939 (U.S. dollars per capita, ten-year averages)

Currency only	Burma	Thailand (Siam)	Malaya	Indonesia (Dutch East Indies)	Indochina	Philippines
1890s	0.1		3.3	1.6		
1900s	0.5	4.3	4.6	1.5		2.4
1910s	1.9	5.2	7.3	2.4	1.2	3.9
1920s	8.1	6.0	9.2	3.5	2.8	5.1
1930s	13.1	3.9	6.4	2.6	2.2	4.5

Note The figures of Burma are included banknotes only
Source van der Eng (2004), p. 215

measure of the population size of Asian colonies and countries is difficult to obtain. Therefore, the proposed comparison is not exhaustive. However, Table 2 shows that the money supply of most colonies and countries in Asia increased rapidly at the beginning of the twentieth century as a result of the adoption of the gold-exchange standard or a similar currency system.

The expansion of the money supply implied a significant increase in the economic and commercial activities in Asian colonies and countries. As is well known, the expansion of intra-Asian trade was led by primary commodities exports to the rest of the world and induced a significant increase in the per capita GDP of Asian colonies and countries. The adoption of the gold-exchange standard had no negative impacts on economic and commercial activities in Asia, and the various silver currencies in circulation under the gold-exchange standard contributed to creating closer economic and commercial relations between the local and regional markets in Asia and the world economy. International banks also played an essential role in building connections between local and regional merchants and foreign merchants in Asia.

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Chapter 4
British International Banking

Masashi Kitabayashi

Abstract The origin of the British international banks can be traced back to the Bank of Australasia, the Bank of British North America, and the Colonial Bank established in British colonies such as Australia, Canada, and the West Indies in the 1830s. These banks were granted Royal Charter from the British government. Among the banking companies that entered Asia, the Oriental Bank Corporation was granted a Royal Charter for the first time only in 1851. This delay was attributable to opposition from the East India Company. After addressing the resistance of the East India Company, the greatest challenge for the British international banks in Asia was the decline in the silver price s from the late 1870s. Additionally, they had been forced to compete with international banks of other countries such as France, Germany, and Japan. In this chapter, we will focus on the British international banks that had entered Asia and provide insights into the banking business there. In particular, we will approach these issues by analyzing the internal accounting records of these banks. We will also examine the business activities of the banks in the New York financial market, which have not been examined hitherto.

Keywords British international banks · Bombay bubble · Decline in the silver price · Gold standard in Asia · New York money market

1 Introduction

In the late eighteenth century, Britain outperformed the world in technical innovation and obtained powerful export products, such as cotton goods. Britain's export industries had established competitive superiority in the global markets. By the start of the nineteenth century, however, the British export markets in the USA and Europe were saturated, and it was losing its dominance because of Industrial Revolution in France, Germany, and the USA. Therefore, it was necessary for Britain to find new

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markets.[1] In the early nineteenth century, the markets attracting attention as potential export markets were Canada, Oceania, Africa, Latin America, and Asia. London's finance services were starting to play a vital role in creating new markets, and British international banks were expected to provide support from the financial domain for the expansion of British export industries in new markets. The purpose of this chapter is to clarify the business operations of the British international banks which went into Asia. The business environment in Asia at the time was very harsh for the British international banks, due to such problems as the presence of the British India Company, the bubble economy in Bombay, fluctuations in the price of silver, and intense competition with the international banks of other countries such as France, Germany, and Japan. We will examine how the British international banks which advanced into Asia responded to these difficulties.

A. S. J. Baster was the pioneering researcher on the British international banks and published two important books titled 'The Imperial Banks' (1929) and 'The International Banks' (1935). After his efforts, authors such as Mackenzie, 'Realms of Silver' (1954), and Tyson, '100 years of Banking in Asia and Africa' (1963), wrote further about banking history. From the late 1980s, research on the British international banks evolved again. Representative works of this period include King, 'The History of the Hongkong and Shanghai Banking Corporation' Vols. 1–4 (1987–1991), Jones, 'British Multinational Banking, 1830–1990' (1993), and Muirhead, 'Crisis Banking in the East' (1996). In particular, two books are cited as remarkable works in recent research: Nishimura, Suzuki, and Michie, 'The Origins of International Banking in Asia' (2012), and Bonin, Valério, and Yago, 'Asian Imperial Banking History' (2015).

Based on the works mentioned above, this chapter focuses on the British international banks that entered Asia and provides insights into the banking business there. In particular, we will approach these issues through an analysis of the internal accounting documents of these banks. Finally, we also examine the business of British international banks in the New York money market, which has not been discussed hitherto.

2 Early Stage of British International Banks in Asia

The first British international banks were founded in the 1830s.[2] The Bank of Australasia was incorporated by Royal Charter and began operating in Australia in 1835. Two other banks were established by Royal Charter soon afterward. The Colonial Bank was established by Royal Charter in 1836, and its main area of operations was the West Indies. The Bank of British North America was established in

[1] Cain and Hopkins (2002), pp. 90–91.

[2] The founding of several of the largest and most successful Empire banks in the late 1830s may be explained largely in terms of the general popularity of overseas investment in England after the Napoleonic Wars; see Baster (1929) p. 1.

Canada as a joint-stock company in 1836 and received a Royal Charter in 1840. These banks were established to supply stable money to the colonies and found specialized financial institutions, which were different from merchant houses. Another important purpose of these banks was the remittance or exchange of business between the colonies and Britain.

These banks had head offices in London and carried out the settlement and financing of foreign trade between Britain and its colonies. The British international banks were incorporated as joint-stock companies with limited liabilities for shareholders through Royal Charters from the British government.[3]

The establishment of similar banking institutions was planned for Asia. The organization of banking companies in Asia and of transactions between Europe and Asia was planned by powerful merchants such as Thomas Baring and William Jardine. The Bank of India applied for the grant of a Royal Charter in 1838, and the Bank of Asia applied for a similar Royal Charter in 1840. However, these requests were denied because the East India Company strongly objected to the entry of these banks into India.[4] In the first half of the nineteenth century, trade settlements between Europe and Asia were carried out through the remittance system of the East India Company, which controlled and dominated finance and trade settlement between Europe and Asia.

One local bank called the Bank of Western India, which originated in 1842 as a joint-stock bank without a Royal Charter, started business in Bombay during this period.[5] Soon after, it built an extensive branch network (including Colombo, Calcutta, Singapore, and Hong Kong) and operated a settlement and exchange business between Europe and Asia. The Union Bank of London was appointed the agent of the Bank of Western India in London.

In 1845, the Bank of Western India changed its name to the Oriental Bank and moved its head office to London from Bombay. The Oriental Bank petitioned the Privy Council and the Indian government for the grant of a Royal Charter several times, but all its efforts failed. The Oriental Bank took over the Bank of Ceylon in 1851[6] and established a new company, the Oriental Bank Corporation (OBC), with a Royal Charter.

After OBC started operating in Asia under a Royal Charter, two other banks followed suit. In 1853, the Chartered Bank of India, Australia and China (CBIAC) was granted a Royal Charter, and the Chartered Bank of Asia acquired a similar Royal Charter in the same year. These two banks were able to receive a Royal Charter because the Treasury judged that the OBC's monopolistic position was unfavorable.[7]

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[3]British international banks demanded Royal Charters primarily for their formation into a legal corporation and limited liabilities for shareholders. Jones (1993) p. 19.

[4]Baster (1929), pp. 89–96.

[5]Suzuki (2012), pp. 89–91.

[6]The Bank of Ceylon was founded in 1841 and was granted a Royal Charter in that year. This bank was able to acquire a Royal Charter easily, because Ceylon was a Crown Colony of Britain and was outside of the jurisdictions of the East India Company. See Gunasekera (1962), pp. 24–25, Baster (1919), p. 104.

[7]Muirhead (1996), p. 8.

Table 1 Total assets and paid-up capital of the British international banks in Asia at the end of 1860 (£ sterling)

	Total of assets	Paid-up capital
OBC	12,697,538	1,260,000
CMBILC	4,489,117	500,000
Agra Bank	3,304,702	1,000,000
CBIAC	2,289,477	644,000

Source Bankers' Magazine, 1861, Reports of joint-stock banks

However, these banks would face difficulties later. The financial market in London underwent turmoil due to the Crimean War, which was then underway. Therefore, these two banks made no progress in payment of their capital and were unable to launch operations under the rule of the Royal Charter.

While these two chartered banks faced difficulties, the Mercantile Bank of India, London and China (MBILC) was enjoying smooth growth. MBILC chose a simpler, speedier way to establish a company, unlike that of the two chartered banks mentioned above. In 1853, MBILC was founded in Bombay as a co-partnership, without the benefit of limited liability.[8] The bank's payment of capital, which was based on the Indian rupee, progressed smoothly and helped it to build a branch network in Asia. The Chartered Bank of Asia, which did not make progress in the payment of its capital, explored an amalgamation with MBILC, but the trial failed. Finally, the Chartered Bank of Asia shut down in 1856 before commencing operations. MBILC decided to make its own application for a Royal Charter and obtained it in 1857.[9] When MBILC obtained its Royal Charter, it changed its name to the Chartered Mercantile Bank of India, London and China (CMBILC). Meanwhile, CBIAC finished its payment of capital in 1858 and ultimately succeeded in starting its business.[10]

Each of the three banks mentioned above was granted a Royal Charter, but other banks operated exchange businesses in Asia without a Royal Charter. Representative examples include the Agra and United Service Bank.[11] The Agra Bank was founded as a co-partnership in India in 1833. The Agra Bank moved its head office from Calcutta to London in 1857 and registered in London in the following year as a joint-stock company with limited liabilities, without acquiring a Royal Charter.[12]

Table 1 shows the scale of activities of the main British international banks in Asia at the end of 1860. OBC was at the top of the scale in terms of total assets and clearly dwarfed the others. CMBILC and the Agra Bank occupied the second and

[8]Muirhead (1996), p. 20.

[9]Muirhead (1996), p. 64.

[10]Mackenzie (1954), p. 26.

[11]There were some banks that operated without a Royal Charter in India. These banks were not corporations, and the liability of their shareholders was unlimited. The Indian government did not receive banknotes from these banks. Muirhead (1996), p. 53.

[12]After the short bill (21 & 22 Vic. c.91) was passed in 1858, banking companies in Britain could be formed with limited liabilities except for note issues. See Nevin and Davis (1970), pp. 70–71.

third positions, respectively. Because CBIAC took time to acquire a Royal Charter and began operations late, it was forced to carry out only small-scale activities.

3 British International Banks in the 1860s

3.1 British International Banks in Asia as Eastern Exchange Banks

Table 2 shows a simplified balance sheet for CMBILC at the end of 1860. The ordinary banking business account, namely ‘deposits’ on the liability side, or ‘bills discounted’ and ‘loans’ on the asset side, was not very large. The largest account was ‘the bills remitted to London’ (55%) on the asset side. On the liability side, ‘the drafts on London’ (45.7%) was the largest account. ‘The bills remitted to London’ was the bills available for export from Asia to Europe. Exporters in Asia (mainly European merchants) drew the bills on importers in Europe, and Asian branches of the British international banks bought the bills from the exporters in Asia for local currency before sending them to London for collection. ‘The drafts on London’ was the bills that the importers in Asia used for remittance to Europe. The branches in Asia drafted the bills on its London head office or London banks, sold them to importers in Asia, and sent them to exporters in Europe.

Table 3 shows the balance sheet of the London head office of CMBILC at the end of 1860. The largest account on the asset side was ‘the acceptance account.’ The bills booked in this account (£ 3,070,256) were the same as the ‘drafts on London’ (£ 3,070,256), in the balance sheet of branches in Asia (see Table 2). The ‘bills for collection’ was the largest account on the liability side. This account (£ 3,696,405) was the same amount as the ‘bills remitted to London’ in the balance sheet of the branches in Asia (£ 3,696,405; see Table 2).

Table 2 Balance sheets of Asian branches of CMBILC including nominal accounts at the end of 1860

Assets	£	%	Liabilities	£	%
Cash	793,167	11.8	Branch capital	500,000	7.4
Bullion	263,799	3.9	Deposits	1,277,903	19.0
Bills discounted and loans	442,382	6.6			
Bills remitted to London	3,696,405	55.0	Drafts on London	3,070,256	45.7
Exchange operation a/c	38,925	0.6	Exchange operation a/c	160,702	2.4
Cash a/c	302,804	4.5	Cash a/c	373,413	5.6
Total with others	6,717,046		Total with others	6,717,046	

Source Statements of general balance sheets, MBH 2368, HSBC group archives

Table 3 Balance sheet of the London Head office of CMBILC at the end of 1860

Assets	£	%	Liabilities	£	%
Cash	14,893	0.2	Capital	500,000	7.5
Bills receivable	1,030,070	15.5			
LJS Bank deposit bills	1,279,473	19.3	LJS Bank Indian drafts a/c	1,764,424	26.6
			Reserve fund	46,858	
			P&L a/c	30,944	
Branch capital	500,000	7.5			
Acceptance a/c	3,070,256	46.3	Bills for collection	3,696,405	55.8
Inter-agency a/c	377,093	5.7	Inter-agency a/c	143,921	
Total with others	6,628,402		Total with others	6,628,401	

Source Statements of general balance sheets, MBH 2368, HSBC group archives

Table 4 Balance sheet of the London head office of CBIAC at the end of 1860

Assets	£	%	Liabilities	£	%
Branch capital	450,000	21.1	Capital	644,000	30.2
			Reserve fund	5,000	0.2
Deposits at City Bank	40,181	1.9	Deposits	17,455	0.8
Debentures	84,680	4.0			
City Bank bills a/c	1,250,744	58.6	City Bank acceptances	1,228,362	57.6
Bank of England bills a/c	64,857	3.0			
Inter-agency balance	231,326	10.8	Inter-agency balance	115,443	5.4
Total with others	2,134,184		Total with others	2,134,184	

Source Half-yearly head office balance sheets, MS 38430, London metropolitan archives

The second largest accounts on the asset side of the London head office were the 'bills receivable' and 'LJS Bank (London Joint Stock Bank[13]) deposit bills.' Those bills were bills that the branches in Asia bought from exporters in Asia and sent to London head office for collection. On the liability side, 'LJS Bank Indian drafts' was the bills that the Asian branches drafted on London and sold to importers in Asia; importers in Asia then sent the bills to London for collection. As described above, most of the business of CMBILC involved transactions of bills of exchange between Europe and Asia.

Table 4 shows a balance sheet of the London head office of CBIAC. The largest account on the asset side was 'City Bank bills account' (58.6%). This account was the same as the 'LJS Bank deposit bills' account of CMBILC (see Table 3); the branches in Asia bought them from exporters in Asia and sent them to London. On

[13]LJS Bank was the London bankers of CMBILC. It was CMBILC's special relationship with LJS Bank which was central to many important aspects of CMBILC's operations. Muirhead (1996), p. 172, p. 180.

Table 5 Gross profits of CMBILC at the end of 1860 (£ sterling)

	Exchange (%)		Discount	Commission	Estimates	Interest	Total with others
London	9,454	74.3		1,318	1,501	448	12,729
Bombay	7,015	67.5	2,758	66	344		10,390
Calcutta	250	4.3		316	1,672	3,567	5,805
Madras	2,749	74.7	393	105	19	416	3,682
Colombo	2,665	42.0		847	1,007	1,821	6,340
Kandy				636		916	1,552
Singapore	7,036	64.1	2,494	8	1,437		10,975
Hong Kong	5,407	92.1		145	321		5,873
Shanghai	5,196	92.4	159	266			5,621
Mauritius	2,019	16.5		256	556	9,415	12,246
Total	41,794	55.6	5,805	3,969	6,861	16,585	75,230

Source Abstract profit and loss accounts, MBH 2377, HSBC group archives

the liability side, 'City Bank acceptance' (57.6%) was the largest account, and this was the same as the 'LJS Bank Indian drafts account' of CMBILC. The core business of CBIAC involved exchange operations between Europe and Asia, similarly to that of CMBILC.

Table 5 shows the gross earnings of CMBILC for 1860. In the Bombay branch, the earnings of the exchange business accounted for 67.5% of gross earnings, that is, 64.1% in Singapore, and over 90% in Hong Kong and Shanghai. The exchange business accounted for most of the profits of each branch of CMBILC. CMBILC's profits from the exchange business constituted 55.6% of gross earnings in 1860. It is clear that the exchange business generated the most important earnings of all the branches (including the London head office) of CMBILC.

As noted above, exchange operations were the most important business of the British international banks in Asia; therefore, the British international banks were known as 'eastern exchange banks.'

3.2 *The Bombay Bubble and British International Banks*

British international banks in Asia showed rapid growth in the first half of the 1860s. Table 6 shows the total assets of the British international banks in Asia from 1860 to 1869. Each bank greatly expanded the scale of its business in the early 1860s. CMBILC increased its total assets by more than double, from 4,489 thousand pounds in 1860 to 10,547 thousand pounds in 1865. CBIAC also increased its total assets by more than double. The Agra Bank showed the biggest increase: Its assets expanded

Table 6 Total assets of British international banks in Asia (£ 000 sterling)

	1860	1861	1862	1863	1864	1865	1866	1867	1868	1869
OBC	12,697	13,176	14,633	16,367	13,935	16,218	18,716	16,903	19,607	19,104
Agra Bank	3,304	3,494	7,163	10,388	17,508	17,832		1,738	2,420	3,516
CMBILC	4,489	5,187	6,792	9,603	10,128	10,547	7,359	5,192	7,892	8,845
CBIAC	2,289	2,791	3,272	3,637	5,021	5,210	3,218	3,163	4,842	4,645
HSBC						3,067	3,479	4,527	4,654	6,231

Source Economist, banking supplement, and Bankers' magazine, reports of joint-stock banks

Table 7 Import of raw cotton in Britain from 1860 to 1864 (cwts)

	1860	1861	1862	1863	1864
Egypt	392,447	365,108	526,897	835,289	1,120,479
USA	9,963,309	7,116,769	120,752	57,090	126,322
British India	1,822,689	3,293,004	3,505,844	3,878,757	4,522,566
Total with others	12,419,096	11,223,078	4,678,333	5,978,422	7,7,975,935

Source Annual statement of the trade and navigation of UK with Foreign countries and British possessions

Table 8 Prices of raw cotton in Britain from 1860 to 1864

	1860	1861	1862	1863	1864
Egypt	3p 15s 6d	4p 4s 9d	7p 1s 4d	10p 11s 8d	12p 15s 3d
USA	3p 0s 4d	3p 12s 5d	10p 2s 4d	11p 5s 8d	13p 11s 0d
British India	1p 17s 0d	2p 17s 5d	6p 5s 9d	8p 18s 11d	8p 9s 0d

Source Annual statement of the trade and navigation of UK with Foreign countries and British possessions

more than fivefold, from 3,304 thousand pounds in 1860 to 17,832 thousand pounds in 1865.[14]

The most important factor in the growth of the British international banks in Asia in the early 1860s was the cotton boom in Bombay. When the US Civil War began in 1861, most raw cotton exports from America halted (see Table 7). A raw cotton famine arose in the British cotton industry, and the price of raw cotton saw a sudden increase (see Table 8).[15] The remarkable rise of raw cotton prices caused an economic boom in India, especially in Bombay, which was the center of raw cotton exports to

[14]However, the expansion of its total assets reflected not only the boom in Bombay, but also the effect of the merger with Masterman, Peters, Mildred & Co. in 1864. Bankers' Magazine, April 1865, pp. 503–504.

[15]According to Tables 7 and 8, the boom took more the form of a rise in prices than in quantity, although the quantity of cotton exported from India also expanded during this period.

Table 9 Bills discounted and loans of CMBILC and CBIAC in Bombay (£ 000 sterling)

	CMBILC		CBIAC	
	Local bills discounted	Loans	Local bills discounted	Loans
1861	56,391	25,389	39,166	77,054
1862	119,122	45,023	117,752	127,443
1863	122,319	41,687	112,546	83,895
1864	21,108	238,417	213,856	55,969
1865	16,033	1,974	21,414	4,390

Source Statements of general balance sheets, MBH 2368, HSBC group archives
Half-yearly branch balance sheets, MS 31519, London metropolitan archives

Britain. The speculation boom in cotton brought much wealth to the city. The Bank of Bombay,[16] which was the center of the boom, supplied a large quantity of funds. The British international banks also supplied funds. Table 9 shows the local bills discounted and the loans of CMBILC and CBIAC in Bombay.

It is clear that the two British international banks supplied a considerable amount of money during the time. How could British international banks cope with such a large fund supply? British international banks extended their paid-up capital in response to the increased demand for funds during the boom. In 1862, CMBILC moved part of the capital (55 thousand pounds sterling) distributed to the Hong Kong and Shanghai branches to the Bombay branch.[17] Subsequently, the bank increased its paid-up capital from 500 thousand pounds in 1862 to 750 thousand pounds in 1865. CBIAC also increased its capital from 644 thousand pounds in 1862 to 800 thousand pounds in 1863, and further increased the capital distributed to the Bombay branch from 1 million Indian rupees to 2 million in 1864.[18] Although OBC maintained a careful stance amid the Bombay boom,[19] the bank also increased its capital, from 1,260 thousand pounds to 1,500 thousand pounds in 1864. The Agra Bank greatly expanded its scale during this period, increasing its capital from 1,000 thousand pounds to 1,500 thousand pounds in 1864.[20]

After the end of the American Civil War in 1865, there was a severe reaction. The economic crisis in England also affected these banks. The chairman of CBIAC described the situation at that time as follows[21]:

[16]The Bank of Bombay was the presidency bank in India. The bank had a government shareholding until 1876. See Bagchi (1987), pp. 318–319.

[17]The Chartered Mercantile Bank, MBH 2368. HSBC Group Archives.

[18]CBIAC, MS 31519, London Metropolitan Archives.

[19]While looking back on the Bombay bubble, the chairman of OBC explained as follows: 'the Directors have good reason to congratulate the shareholders that timely precaution in restricting credits and limiting business generally has prevented much actual loss which might otherwise have arisen, and has diminished the prospective risk necessarily attaching to current transactions in times of difficulty.' Bankers' Magazine, May 1865, p. 632.

[20]Bankers' Magazine, April 1865, p. 505.

[21]Bankers' Magazine, October 1865, p. 1278.

> Our losses at Bombay had been unquestionably very severe. As to the crisis at Bombay, no such crisis had occurred in the history of the world since the famous South Sea bubble. It was created partly by British speculators and partly by natives, and it culminated in all sorts of new schemes, which were driven up by stimulants to the most frantic point, and which had resulted in enormous losses.

After the collapse of the Bombay bubble and the crisis in 1866, the Agra Bank, which had followed the most aggressive policy at the time, underwent stoppage in 1866 and was dissolved the following year.[22]

3.3 Foundation of HSBC as a Local Bank

A banking company was established in the last phase of the period of activity in the Asian economy led by the Bombay boom. A banking company prospectus that appeared in the local newspaper in Hong Kong[23] stated that

> The local and foreign trade in Hongkong and at the open ports in China and Japan has increased so rapidly within the last few years that additional Banking facilities are felt to be required. The Banks now in China being only branches of Corporations, whose headquarters are in England and India, and which were formed chiefly with the view of carrying on exchange operations between those countries and China, are scarcely in position to deal satisfactory with the local trade which has become so much more extensive and varied than in former years.

The prospectus first described the situation and the dissatisfaction of the banking industry in Hong Kong and China caused by the English and Indian banking companies. The prospectus also insisted on the necessity of the banking business given the imminent spread of local trade and planned the foundation of banking companies suitable for local circumstances, such as the Presidency Banks in India and the Banks of Australia. It added, 'This deficiency the Hongkong and Shanghai Banking Company will supply, and will in fact assume the same position with relation to this Colony as the Presidency Banks in India, or the Banks of Australia in their respective localities.'

According to the prospectus, it was clear that the Hongkong Bank was established as a local banking company for Hong Kong. The Hongkong and Shanghai Banking Company was founded as a joint-stock company with limited liabilities under company ordinance No. 1 of the Hong Kong government in March 1865 and started business on March 2, 1865. Its name was changed to 'The Hongkong and Shanghai Banking Corporation' (HSBC) under Hong Kong Government Ordinance No. 5 of 1866, the equivalent of a Royal Charter for a British international bank.[24]

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[22] Bankers' Magazine, July 1866, pp. 789–792, and May 1867, pp. 501–509.

[23] China Mail, July 28, 1864.

[24] King (1987), pp. 70–71.

Table 10 Banking business of CMBILC, CBIAC, and HSBC in Hong Kong and Shanghai in 1865 (£ sterling, $1 = 4s 6d)

	CMBILC		CBIAC		HSBC
	Hong Kong	Shanghai	Hong Kong	Shanghai	
Capital	Nil	50,000	50,000	100,000	562,500
Banknotes	112,206	29,740	145,541	9,349	
Deposits	453,369	549,908	50,997	3,698	
Subtotal	564,575	579,648	196,538	13,047	761,597
Bills discounted	22,271	240,367	8,692	75	
Loans	5,492	Nil	27,037	2,011	
Subtotal	27,763	240,367	35,729	2,086	707,500

Source Statements of general balance sheets, MBH 2368, HSBC group archives
Half-yearly branch balance sheets, MS 31519, London metropolitan archives
Reports of joint-stock banks, Bankers' magazine

When HSBC commenced business in 1865, it was on a modest scale (see Table 6). The total assets of OBC and the Agra Bank were five times that of HSBC. The scale of HSBC's business compared unfavorably even with that of CBIAC. However, the position of HSBC was completely different in Hong Kong and Shanghai. It is difficult to make comparisons between the branches of each bank at that time. However, the balance sheets of branches of CMBILC and CBIAC have survived. The account statements of the HSBC branches have unfortunately not survived, but because HSBC's areas of activity were confined to Hong Kong and Shanghai,[25] the overall balance sheets can be accurately compared.

Table 10 compares the business of CMBILC, CBIAC, and HSBC in Hong Kong and Shanghai. The banks that set up their head offices in London distributed capital to their branches in Asia. CBIAC distributed 50 thousand pounds to Hong Kong and 100 thousand pounds to Shanghai, while CMBILC distributed 50 thousand pounds to Shanghai. HSBC was able to employ all its capital in Hong Kong and Shanghai, but it is unknown how it distributed capital between the two.

As expected, CMBILC occupied a significant position with regard to the volume of banknote issues and deposits. However, HSBC greatly exceeded CMBILC in terms of the local bills discounted and loans. HSBC appeared inferior as a banking company in Asia as a whole, but it could compete with other banks on equal terms in Hong Kong and Shanghai, where its business was concentrated.

[25]The Yokohama branch was set up as the second branch in Asia in May 1866. King (1987), pp. 94–95.

When HSBC commenced business in Hong Kong in March 1865, the defeat of the South in the American Civil War was certain, and the end of the war imminent. It was expected that the Bombay bubble would burst in due course. HSBC was not involved in the bubble.

Furthermore, after the collapse of the economic bubble in Bombay and the 1866 crisis, several banks went bankrupt, and the survivors reduced the scale of their businesses. Consequently, the competition among banks in Asia relaxed.[26] This change in the economic environment greatly influenced the later development of HSBC.

3.4 Advantages of the HSBC as a Local Bank

A newspaper in Shanghai at the time reported the success of HSBC as follows[27]: 'Without exception, the banking business of China was in the hands, and carried on exclusively by branches, of establishments, of which the directorship and constituency were located at a distance in Bombay, Paris and London. The inconvenience thus arising can be readily enough understood. In some cases, managers of branches in China were tied hand and foot by stringent orders from home, which prevented them taking advantage of opportunities suggested by local information.'

The most serious problem for existing banks was their distance from their head offices.[28] 'All these disadvantages were obviated by the opening of a local bank with its directory at hand.' In addition, the article pointed out the significance for the local economy of having a local bank: 'the advantage of having a local proprietary by which the profits of the undertaking are not so entirely withdrawn from the sphere of its operations. Another valuable advantage to the public is that the credit cannot be impaired or affected by operation carried on at a distance from its center, as is the case will all the other banks carrying on business in China.' The article used the example of the Agra Bank and criticized the weakness of banks that operated in a wide range of areas: 'The Agra and Masterman's branches in China are declared to be perfectly solvent in themselves, but have been obliged to suspend payments to the serious determent and inconvenience of customers, in consequence of losses made in Europe and India.' In contrast to the Agra Bank, 'from this grave contingency, the Hongkong and Shanghai Bank will at all events escape, so long as its operations are limited to a circle of branches within easy reach and control of the central executive.'

[26] 'The result of the suspension of 21 banks connected with the East had been to reduce competition, so that the remaining banks could make a better thing of it.' The 13th Ordinary Meeting of CBIAC, Bankers' Magazine, May 1867, p. 511.

[27] North China Herald, August 25, 1866.

[28] The head office of HSBC was in Hong Kong, only 760 miles away from Shanghai and 1400 miles away from Yokohama and Singapore. On the other hand, the distance from Shanghai to London via the Suez Canal (opened in 1868) is 10,411 miles, which a steamer with the speed of ten knots would have required 44 days to cover. Nishimura (2012b), p. 116.

Table 11 Circulation of bank notes in Hong Kong (Mexico $)

	August 1866	January 1867
OBC	329,000	230,800
CMBILC	335,441	323,524
CBIAC	33,800	69,900
HSBC	607,050	697,559

Source China mail, August 23, 1866, and January 17, 1867

Furthermore, the article reported an interesting fact regarding Hong Kong and Shanghai: 'One of the most satisfactory evidence of excellent position is that the native merchants, so suspicious generally of foreign banks, have availed themselves of it largely, both here (Shanghai) and in Hong Kong, for deposit, and of its note circulation.' Table 11 shows the circulation of the banknotes of the British international banks in Hong Kong. Unlike the other British international banks, HSBC was supported by not only European merchants, but the native merchants too.

The article described the superiority of HSBC as follows: 'All the circumstances we have enumerated, cannot fail to place the bank in a position of advantage, and give an elasticity and freedom to its operations.' Elasticity and freedom as a local bank were factors in the early success of HSBC.

3.5 Reduction of Usance

Soon after the foundation of HSBC, an event occurred that demonstrated its superiority as a local bank. When the Agra Bank collapsed in May 1866, the chairpersons of the British international banks in Asia met in London and concluded an agreement regarding the shortening of the usance period of bills that were drafted on London from Asia.[29] The chairman of CMBILC explained the reason for this, concluding[30]: 'The six months' usance has been an abuse of credit which has acted most perniciously, and which is one cause of the overtrading and bad business that has been going on for some time past.' He criticized the abuse of the six months' usance and evaluated the four months' usance as follows: 'The adoption of the four months' usance would have been a measure of great benefit, safety, and advantage to the India and China trade.'

However, the reaction of the mercantile communities in India and China to the agreement was poor beyond expectations. A local newspaper in Hong Kong criticized

[29]The banks that participated in the agreement were CBIAC, CMBILC, the Bank of Hindustan, China and Japan, the Delhi and London Bank, OBC and Comptoir d'Escompte de Paris. Their branches and agencies in the East did not buy and sell bills of exchange at any term exceeding four months' sight from January 1, 1867. China Mail, August 23, 1866.

[30]Bankers' Magazine, December 1867, p. 1207.

Table 12 Exchange business of CMBILC and HSBC (£ 000 sterling ($1 = 4s 5d))

	CMBILC		HSBC	
	Bills receivable	Bills payable	Bills receivable	Bills payable
1865	5,989	5,604	1,226	1,266
1866	3,848	3,963	2,031	1,736
1867	2,270	2,206	2,934	2,437
1868	4,095	4,381	2,651	2,302

Source Reports of joint-stock banks, Bankers' magazine

the agreement as follows[31]: 'The question of a four or six months' usance of bills seems to have been too hastily decided by the Exchange Banks in London. The simplest calculation will show that six months is just sufficient to cover the time which elapses between the putting of goods on board in one port and their final arrival at their destination in the warehouses.' The article argued that the agreement of four months' usance did not match the trade situation in India and China, and concluded as follows:

> In the face of what seems to be the united opinion of the mercantile communities of India if the Exchange Banks adhere to their new and hastily formed rule in the case of goods sent otherwise than overland to or from India, the rule will not continue in force six months.

As the article predicted, the agreement was annulled in October 1867.[32] Unfortunately for the banks that participated in the agreement, merchants in India and China generally did not assent to it. HSBC understood that the new agreement was inappropriate for China's trade, as it did not meet the requirements of local constituents. Therefore, HSBC declined to join the agreement.[33] The chairman of CMBILC admitted that 'but for the circumstance of the four months' usance in bills having prevailed during the whole of this period, and having operated very differently to our anticipations, our profit would have been considerably more. We found the four months' principle to work very badly, so badly that we have been obliged to give it up, and to resume the six months' usance.' However, the blow received by the banks that participated in the agreement was serious. 'The loss during three or four months by the adoption of the four months' usance was between £ 20,000 and £ 30,000.'[34]

Table 12 shows the exchange operations of CMBILC and HSBC in Asia. CMBILC's exchange business shows a large decrease after the agreement was made. Meanwhile, HSBC's exchange business greatly increased relative to other banks. HSBC was able to purchase six months' bill from customers in Asia and sell its own drafts on London as four months' bill to its competitors at a great profit, which was

[31] China Mail, November 11, 1866.

[32] 'By October 1867 the associated banks were compelled to abandon their attempt to enforce the four months usance.' Mackenzie (1954), p. 65.

[33] King (1987), p. 85.

[34] Bankers' Magazine, December 1867, p. 1205.

the only way they could obtain remittances. HSBC rapidly strengthened its position as an exchange bank during the period of the agreement and gained the confidence of the mercantile communities. This proved the superiority of HSBC as a local bank.

3.6 Exposure of HSBC's Weaknesses as a Local Bank

Not all went well for HSBC, however. As a local bank, it also had weaknesses. HSBC had accomplished considerable progress since the commencement of its business in 1865, but it faced serious trouble for the first time in 1874. It failed to pay dividends and had to withdraw $225,000 from its reserve fund in the first half of 1874.[35] The director's report gave no information as to the cause of the losses. A more serious situation was apparent at the general meeting of shareholders on February 18, 1875.[36] At the meeting, the directors proposed not only paying no dividends to the shareholders but also withdrawing $675,000 from the reserve fund. According to the director's report, the losses and amounts written off required $106,000 from the profits and loss accounts and $675,000 from the reserve fund (total $781,000). What were the causes of the huge losses that HSBC suffered? The director's report shows that the amounts to be set aside were as follows:

For China sugar refinery	$275,000
Head office accounts	$180,000
London accounts	$160,000
Sterling bills	$80,000
Sundry accounts	$86,000
Total	$781,000

On the London accounts, the manager in London had, on his own responsibility and without the knowledge or consent of the head office, made considerable transactions in bonds and securities, which resulted in heavy losses in Spanish bonds and American Railways. The losses on sterling bills were chiefly due to purchases made in the previous six months. Furthermore, a serious problem arose in the Hong Kong head office. According to the director's report,[37] the amount placed against 'head office accounts' was required for writing off a considerable amount from the value of the sugar refinery, the Pier Company's property, and other items. Therefore, most of the losses in the head office accounts were related to the sugar industry in Hong Kong.

[35]Bankers' Magazine, November 1874, pp. 913–914.

[36]North China Herald, February 25, 1875.

[37]North China Herald, March 4, 1875.

The local newspaper in Shanghai reported on the expectations for the future of sugar industry in Hong Kong as follows[38]: 'The prospect of the sugar company becoming a financial success, led to the starting of other branches of industry in Hongkong. We were to have distilleries, rice mills, &c, and to help out these a pier and godown company was started to fill and acknowledged want.' There was a large project to expand the local sugar industry as the core industry in Hong Kong, and HSBC was expected to provide financial support to the local companies during the project. 'The Hongkong and Shanghai Bank, having gone in heartily for the first scheme, might naturally be expected to back it up by affording assistance to its satellites. The idea was a grand one, to make Hongkong a commercial center, with the local bank the great director of finance.' However, the plan soon failed: 'Unfortunately, the collapse of the sugar companies destroyed the foundation of the structure; and the bank, which had honestly endeavored to change the character of the trade of Hongkong, find itself relegated to a position scarcely better than that at which it started.'

Thus HSBC's reserve fund, which had accumulated since its establishment, was suddenly reduced from $1,000,000 in 1873 to $100,000 in 1875. As a local bank, HSBC had cooperated with the local companies since its establishment. HSBC's prospectus read as follows:

> For the anticipated success of this enterprise there are therefore ample grounds, and the great prosperity which has attended the working of other local associations in China clearly shows that the largest profits are obtained by those Public Companies which possess an interested local body of Proprietors or Shareholders, whose support naturally forms a chief element of remunerative success. (China Mail, July 28, 1864.)

However, the policy of cooperating with local companies allowed personal connections with them to develop, leading to reckless advances being made to those companies by HSBC's top management.

In the bad debts that occurred in 1874, the personal connections between HSBC's directors and the companies concerned became evident. Victor Kresser, chief manager in Hong Kong, had pushed forward the advances to the local companies led by the Indo-Chinese Sugar Company. Several of HSBC's directors were involved as company directors and others as investors. HSBC's chairman, Richard Rowett, was personally involved as a director of the Indo-Chinese Sugar Company.[39] Kresser granted favorable interest rates to companies represented on the Standing Committee of HSBC, making the members less critical of Kresser's activities.[40]

Confronted by the crisis in 1874, HSBC carried out reform of its management organization. First, a London Committee was set up to supervise the operations of the London office, which faced heavy losses due to the London manager.[41] Regarding the function of the Court of Directors in Hong Kong, the Court resolved to hold

[38]North China Herald, March 11, 1875.

[39]King (1987), pp. 188–189.

[40]King (1987), p. 216.

[41]The decision of the London Committee had been announced to the shareholders in August 1875; a month later, the Court of Directors appointed A.H. Phillpotts, director of London and County Bank,

weekly meetings of the full Court, with each director told to inspect the accounts of the assigned branches. This decision was an important step in abolishing the Standing Committee.[42] The purpose of the decision was to ensure an improved and independent flow of information to the directors.

The Court of Directors also needed a strong and able chief manager. JamesGreig took on the position of chief manager, succeeding Kresser in 1871, before retiring in 1876. His retirement cleared the way for the confirmation of Thomas Jackson as chief manager,[43] under whose leadership HSBC began a new development.

4 British International Banks and the Decline in the Price of Silver

In the early 1870s, OBC was the most powerful bank in Asia. OBC was well ahead of its competitors, namely CMBILC, CBIAC, and HSBC (see Table 13). However, the situation began to change in the late 1870s, with OBC losing its leading position. In the 1880s, the change was much more dramatic. OBC collapsed in 1884, while HSBC rapidly gained prominence. The most important factor behind the change of the banking sector in Asia was the fluctuation in silver prices. Prices had begun to fall after 1873.[44] The depreciation of silver had a heavy influence on the British international banks in Asia, because their main business was exchange operations between Europe and Asia. Due to the decline of silver prices, some banks faced difficulties and lost their position. Others, however, increased their business and retained strong positions.

Most of the British international banks in Asia depended on funds from their head offices in London for their operations. The source of the operating funds of the branches in Asia comprised three elements: (1) branch capital distributed from London, (2) deposits in Asia, and (3) draft bills on London. Table 14 displays the distribution of capital to each branch of CMBILC and CBIAC in 1870.

Most British international banks distributed most of the capital paid in London to their branches in Asia, based on pound sterling. In addition, the purchase fund of the bills on London depended on funds obtained by the sales of the bills on London in Asia. The exchange business between Europe and Asia, which greatly depended on funds from London, based on pound sterling (= gold), suffered due to the decline in silver prices.

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and E. F. Duncanson, T. and A. Gibb and Co., and Albert Deacon, partner in E. and A. Deacon and Co.; King (1987), pp. 211–212.

[42]King (1987), pp. 215–216.

[43]King (1987), p. 214.

[44]It is very difficult to determine which factors were decisive in the continual decline of silver prices, but one thing that is clear is that the fall is associated with a significant increase in world production of silver. See Nishimura (2012a), p. 60.

Table 13 Total assets of British international banks in Asia (£ 000 sterling)

	1875	1876	1877	1878	1879	1880	1881	1882	1883	1884	1885
OBC	21,116	20,408	19,890	20,493	14,205	13,225	13,867	13,583	11,250	1,480	4,963
CMBILC	7,873	8,807	8,549	9,778	7,950	8,068	8,601	8,099	7,168	6,778	7,064
CBIAC	6,130	6,926	7,602	8,643	8,134	9,542	9,543	9,319	10,657	9,708	9,790
HSBC	7,053	9,056	10,215	9,625	9,798	8,809	10,863	12,493	14,397	15,294	18,450

Source Reports of joint-stock banks, Bankers' magazine

Table 14 Branch capital of CMBILC and CBIAC (£ sterling)

	Bombay	Calcutta	Singapore	Hong Kong	Shanghai	Rangoon	Batavia	Madras	Colombo	Yokohama	Paid-up capital
CMBILC	195,000	200,000	50,000	50,000	150,000			40,000	50,000	15,000	750,000
CBIAC	100,000	125,000	50,000	25,000	100,000	100,000	50,000				800,000

Source Statements of general balance sheets, MBH 2368, HSBC group archives
Half-yearly branch balance sheets, MS 31519, London metropolitan archives

4.1 Crisis in 1878

The negative influence of the decline in silver prices became clear in the management of British international banks in 1878. The directors of CMBILC could not pay dividends to their shareholders for the first time in the history of the bank. The chairman of CMBILC explained the situation thus[45]: 'The result is chiefly owing to the great fall in the price of silver, of which the bank was a large holder.' The board of directors of CMBILC accepted the continuous decline in silver prices and began to explore measures to deal with it. This is highlighted by the following remark: 'Such portion of the sterling liabilities due to the public as is permanently employed in the East, stands in the book at par (1 rupee = 2 shilling) as hitherto, but owing to the continued fall in the value of silver and exceptional depression in exchange, the directors have thought it advisable to make special provision for any eventual loss thereon.' The directors of CMBILC made a special provision account for the portion of the deposits in London that were employed in Asia, estimated at £ 74,375. In addition, the depreciated value of Indian government loans was estimated at £ 41,745. The total amount transferred from the reserve fund was £ 121,090. However, CMBILC maintained the book value on capital distributed in Asia, and noted that 'the system that has been adopted since the incorporation of the bank, of treating the capital as fixed in the books at the par of exchange, has been continued.'

In the late 1870s, OBC also faced a serious crisis. The chairman of the bank demanded the reduction of dividends from 6 to 5% per annum at the shareholder meeting of 1875.[46] He indicated the following three points as the reason for the crisis:

> The result of the operations of the past year was caused by the steady decline in Eastern exchanges, by the provision which had to be made for the fall in the value of Indian Government Rupee paper, and by the generally depressed state of commercial and money affairs during the period.

In fact, the decline in silver prices had begun to influence the management of OBC. Although the bank maintained dividend payments in 1877, it had to withdraw the sum of £ 175,000 from the reserve fund.[47] However, the board of directors stated only that these losses had arisen under circumstances of an exceptional character, and did not explain the details. A more serious situation occurred at OBC in 1878.[48] The bank could not pay dividends in the second half of 1878 for the first time in its history, as they had to cover huge losses. They had to provide for bad and doubtful debts (£ 243,857), for depreciation on Indian government paper, for the additional provision for adjustment of current balances in the East (£ 185,567), and for the depreciation

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[45] Bankers' Magazine, May 1879, p. 407.

[46] Bankers' Magazine, June 1876, p. 454.

[47] To provide for the deficiency, the directors decided, after much consideration, to withdraw the sum of £ 175,000 from the reserve fund. They considered that one of the main objectives of the reserve fund was to meet such exceptional losses, and they adopted this strategy in preference to interfering with the current dividend. Bankers' Magazine, May 1878, p. 429.

[48] Bankers' Magazine, May 1879, pp. 414–416.

of foreign and colonial securities, especially Chilean government bonds (£ 91,030). The total sum of the provision of those losses was £ 520,455. It later became clear that most of the bad debts were due to the failure of investments in Ceylon and Mauritius.

4.2 Failure of Oriental Bank

OBC faced intense competition in the exchange business area, which resulted in huge losses. In the early 1870s, the extension of telegraphic communication to India, China, and Japan led to a great change in the exchange business of ports in the region. British international banks began to sell telegraphic transfers on London.[49] When profits from its exchange business decreased, OBC extended financing for the sugar industry and coffee plantations in Mauritius and Ceylon. These investments brought about the unfortunate results described above. The greatest factor in OBC's entering real estate finance in the 1870s was that the stagnation of exchange operations, its main business, continued during the depreciation of silver prices. The investments in Ceylon and Mauritius provided the opportunity for OBC to earn large profits, and it continued to pay high dividends,[50] but their failure became apparent in 1877 and 1878. OBC's reputation was tarnished by the huge loss and the sudden drop in dividends. OBC's share price began at around £ 45 (paid £ 25 per share), then began to fall in late 1878, and fell below £ 20 in April 1879.[51] At the general shareholder meeting in April 1884, OBC's board of directors decided to reduce its capital from £ 1,500,000 to £ 750,000 in order to write off a large portion of its bad debts.[52] As soon as this decision was taken, its share price plummeted and deposits were withdrawn; finally, OBC had to put a stoppage on payments in May 1884.[53]

4.3 Policy Regarding the Decline in Silver Prices

Unlike the two banks mentioned above, CBIAC followed a cautious policy for the capital allotted in Asia. Since the end of 1875, the directors of CBIAC had discussed the future of exchange, namely whether silver's depreciation was permanent. The directors thought it best to expect the worst.[54] They decided that the book value of

[49]One effect of telegraphic transfers has been to diminish to very great extent the acceptances of the British international banks. Bankers' Magazine, May 1893, p. 735.

[50]'Having said so much about the engagement we have inherited in Ceylon and Mauritius, it is but just to our predecessors to remind you that this very business was for many years the main source of the bank's profits. These were the accounts that swelled the dividend that ran the shares of the bank up to prices'. Bankers' Magazine, 1883, p. 1251.

[51]Price of Joint Stock Bank Shares, each volume of Bankers' Magazine.

[52]Bankers' Magazine, June 1884, p. 665.

[53]Economist, May 10, 1884.

[54]Bankers' Magazine, June 1876, p. 453.

Table 15 Balance sheet of CMBILC in Shanghai at the end of 1880 (£ sterling)

Liabilities		Assets	
Branch capital	175,000	Cash	54,468
Current deposits	6,032	Loans	5,241
Fixed deposits	68,623		
Notes in circulation	11,938		
Bills payable	4,200	Bills receivable	25,249
Drafts on London	454,635	Bills remitted to London	703,281
Loans from London	25,000		
Our a/c, London	174,469		
Total with others	950,419	Total with others	950,419

Source Statements of general balance sheets, MBH 2368, HSBC group archives

the portion of the capital permanently employed in the East would be changed from 2s per rupee and 4s 6d per dollar to 1s 9d per rupee and 4s per dollar. Furthermore, all other funds and securities were adjusted according to the current prices and exchange rates.[55] When the silver price fell further, CBIAC changed the book value of the capital in Asia to 1s 7.5d per rupee and 3s 8d per dollar in 1883.[56]

A shocking development occurred in 1884, when the decline in silver prices began to indicate long-term consequences. OBC, which had led the British international banks in Asia, went bankrupt. CBIAC decided to withdraw a portion of the capital (£ 325,000) distributed in Asia to its head office in London, except in Manila, Yokohama, and Batavia (£ 225,000).[57] CBIAC disposed of the loss (£ 25,355) by withdrawing the capital in Asia in the profit and loss account of 1885.[58]

The British international banks, which were based on pound capital (= gold), faced considerable difficulties as silver prices declined, but HSBC, which was based on dollar capital (= silver), was able to avoid them.

4.4 Advantages of HSBC

Tables 15, 16 and 17 shows the balance sheets of the Shanghai branches of CMBILC, CBIAC, and HSBC at the end of 1880. Each bank distributed its capital to the Shanghai branch, but the contents of their capital varied greatly. CMBILC and CBIAC had subscribed capital based on pound sterling in London; thus, their capital was

[55]Bankers' Magazine, May 1879, p. 406.

[56]Bankers' Magazine, May 1883, p. 522–523.

[57]Yokohama was exempted because of its comparative lack of deposits and local resources, as were Manila and Batavia, partly for the same reason and partly because their currencies were on a gold standard. Mackenzie (1954), p. 162.

[58]Economist, May 22, 1886.

Table 16 Balance sheet of CBIAC in Shanghai at the end of 1880 (£ sterling)

Liabilities		Assets	
Branch capital	75,000	Cash	43,855
Current deposits	84,522	Overdrafts	68,127
Fixed deposits	88,147	Loans	111,221
Notes in circulation		Bills receivable	138,220
Bills payable	79,702	Our a/c, France	309,945
Our a/c, London	407,861	Our a/c, America	70,324
Total with others	799,929	Total with others	799,929

Source Half-yearly branch balance sheets, MS 31519, London metropolitan archives

Table 17 Balance sheet of HSBC in Shanghai at the end of 1880 (£ sterling, 1 Shanghai Teal = 3s1 1/4d)

Liabilities		Assets	
Branch capital	278,678	Cash	21,452
Current deposits	551,608	Loans	522,451
Fixed deposits	348,170	Bills receivable	190,474
Notes in circulation	18,385	Our a/c, London	334,168
Bills payable	9,869		
Total with others	1,365,705	Total with others	1,365,705

Source Shanghai Ledger books, SHG LEDG 46, HSBC group archives

based on gold. However, HSBC was subscribed capital based on the Mexican dollar in Hong Kong. Therefore, HSBC's capital was not influenced by the fluctuations in silver prices. The key difference among CMBILC, CBIAC, and HSBC was the scale of deposits in Shanghai. HSBC's deposits greatly exceeded those of the two other banks. Therefore, HSBC was able to accomplish enough local banking business via silver funds. However, the two other banks had to depend on the sterling fund of the head office in London. It was the status of 'our account in London' for each bank that revealed the difference. In the case of HSBC, the account was included as part of assets, but the account was included as part of liabilities in the two other banks. In other words, the Shanghai branch of HSBC had a claim on pound sterling to the London office, but the Shanghai branches of CMBILC and CBIAC stood in sterling debts to their London head office. In other words, HSBC, which had ample funds in silver, could stand against the decline in silver prices and was very different from its competitors in that regard.

5 Profitability of British International Banks in Asia

Table 18 compares the profitability, or return on assets (ROA), of British international banks in Asia, including the British domestic banks, namely the London and Westminster Bank (L&W), the London County Bank (L&C), and London Joint Stock Bank (LJS Bank), from the 1850s to the early twentieth century. OBC, which acquired a Royal Charter in the early 1850s and started its business including exchange operations between Europe and Asia, showed extremely high profitability. The return on assets (ROA) of the British domestic banks, which had head offices in London, ranged from 1.87 to 1.15%, but the ROA of OBC exceeded 2%. The high profitability of OBC, with an ROA that greatly exceeded that of the British domestic banks, encouraged the new banks' entry into the exchange business in Asia. At the beginning of the 1860s, the profitability of OBC decreased slightly due to the increasing competition.[59] However, OBC, together with the other British international banks, maintained high profitability during the early 1860s. The high profitability of British international banks was influenced by the boom in Bombay caused by the rise in the cotton prices. After the collapse of the bubble economy in Bombay, the profitability of British international banks showed a tendency to drop again. However, OBC maintained higher dividends (12%) than did other banks (from 8 to 5%) in the second half of the 1860s. OBC expanded its investments in Mauritius and Ceylon to maintain high profitability and high dividends.[60] The fall of the silver price combined with the failure of the investments in Mauritius and Ceylon, and OBC fell into a management crisis in 1883 before failing in 1884.

Concerning CMBILC and CBIAC, the total assets of CMBILC were second to those of OBC until the mid-1870s, but the positions of CMBILC and CBIAC in terms of total assets switched in 1878 (see Table 13). The key factor in this reversal was their differing policies toward the decline in silver prices, especially regarding the withdrawal of funds from the London head offices. CBIAC returned most of its funds from the London head office, including the branch capital. With the branches in Asia, they attempted a collection of local deposits.[61] Table 19 shows the Asian deposits of CMBILC and CBIAC. Their positions in terms of deposits switched after the end of the 1870s. CBIAC succeeded in increasing its exchange business

[59] 'In the presidency of Bombay, some two or three years ago, there were only one bank, and some four or five banking agencies, presently there are no less than 23 banks and banking agencies, beside 10 or 12 financial establishments, which are all competing with us.' Bankers' Magazine, May 1865, p. 632.

[60] OBC chose a policy of maintaining a high dividend when the big loss of 1877 occurred. They considered that one of the main objectives of a reserve fund is to meet such exceptional losses, and they adopted this course in preference to interfering with the current dividend. Bankers' Magazine, May 1878, p. 429.

[61] 'The opening of Suez Canal, the extension of telegraphy to China, the changes which these and the fall in the value of silver introduced into, or imposed on, a large part of the Eastern trade, and the extension of the internal trade of the East generally, made it necessary for all the exchange banks to increase their deposits if they would hold their own against their competitors.' Bankers' Magazine, May 1893, p. 734.

Table 18 ROA of British international banks and British domestic banks

	OBC	CMBILC	CBIAC	HSBC	L&W	LJS	L&C
1852	2.54					1.29	
1853	2.3				1.58	1.4	1.36
1854	1.78				1.75	1.75	
1855	2.2				1.64	1.65	1.36
1856	2.18				1.43	1.87	1.17
1857	2				1.15	1.29	1.41
1858	1.57				1.45	1.72	1.18
1859	1.96				1.71	0.99	1.42
1860	1.69	1.05	1.99		1.62	1.14	1.08
1861	1.49	1.1	1.46		1.54	1.45	1.1
1862	1.32	1.39	2.15		1.55	1.57	1.01
1863	1.52	2.05	2.78		1.65	0.92	1.44
1864	1.48	1.25	2.09		2.36	1.24	1.83
1865	0.96	0.36	−0.84		1.58	1.12	1.45
1866	1	1.39	0.89		1.92	1.91	1.25
1867	1.04	2.05	1.26		1.23	1.13	1.06
1868	0.91	0.45	1.6		1.28	0.77	
1869	0.94	0.68	1.35		1.43	1.14	0.85
1870	0.91	−0.76	−2.67	0.96	1.41	1.07	0.93
1871	0.87	0.71	0.67	1.79	1.22	1.28	0.91
1872	0.84	0.55	0.2	1.1	1.31	1.35	0.89
1873	0.83	0.78	0.69	1.03	1.46	1.36	1.06
1874	0.76	0.59	1.02	−2.1	1.28	1.23	1.01
1875	0.8	1.39	1.06	0.54	1.37	1.25	1.18
1876	0.73	1.09	1.62	1.77	1.1	1.05	0.85
1877	0.74	0.88	1.22	1.66	1.27	1.09	0.98
1878	−1.18	−0.08	0.49	1.45	1.57	1.23	1.21
1879	0.33	0.63	1.14	1.24	1.14	0.95	1.27
1880	0.54	0.8	0.66	1.87	1.44	1.26	1.11
1881	0.51	0.05	0.59	1.99	1.41	1.45	1.1
1882	0.45	1.02	0.93	2.04	1.59	1.53	1.18
1883	0.02	0.93	0.82	1.69	1.61	1.2	1.15
1884		1.46	0.07	1.75	1.64	1.31	1.17
1885		0.76	0.57	1.74	1.5	1.35	1.17
1886		0.07	0.96	1.26	1.49	1.37	1.17
1887		1.11	0.71	1.1	1.6	1.38	1.17

(continued)

Table 18 (continued)

	OBC	CMBILC	CBIAC	HSBC	L&W	LJS	L&C
1888		0.96	0.78	1.36	1.44	1.38	1.05
1889		1.14	0.92	1.4	1.47	1.34	1.12
1890		0.31	0.71	1.78	1.64	1.38	0.98
1891			0.42	0.34	1.31	1.23	1.09
1892			0.51	−1.15	1.13	1.14	0.93
1893		0.69	0.97	1.58	1.04	1.08	1.06
1894		0.66	1.04	1.84	0.85	0.89	0.92
1895		0.56	0.77	1.52	0.8	0.82	0.94
1896		0.82	0.78	1.42	1.04	0.95	0.86
1897		0.81	1.36	2.16	1.19	1	1.05
1898		1.07	1.25	3.52	1.26	1.06	1.18
1899		1	0.78	2.29	1.53	1.04	1.24
1900		1.3	1.02	2.23	1.45	1.06	1.36
1901		1.15	1.4	1.79	1.34	1.01	1.17
1902		1.01	1.27	1.75	1.41	0.98	1.08
1903		1.42	1.05	1.68	1.16	1.09	0.88
1904		1.76	1.37	1.95	1.17	1	1.04
1905		1.57	1.37	1.85	1.19	0.91	1
1906		1.58	1.26	1.82	1.17	0.99	1.01
1907		1.75	1.27	1.76	1.31	0.93	0.84
1908		1.38	1.36	1.83	1.02	0.78	0.88
1909		1.1	0.9	1.89		0.8	
1910		1.23	1.09	1.9	0.78	0.79	
1911		1.19	1.02	1.53	0.76	0.76	
1912		1.42	1.31	1.57	0.75	0.81	
1913		1.68	1.29	1.55	0.81	0.79	

Source Reports of joint-stock banks, Bankers' magazine

based on a stable increase in local deposits. Table 20 shows the sources of profits of those two banks in Singapore, which had one of the most important transit ports in Asia during the 1880s. The exchange business was clearly CBIAC's main source of profits. However, CMBILC did not prosper in its exchange operations, and depended on loans and advances.

HSBC had a strong position in the collection of local deposits (see Table 21). The superiority of HSBC as a local bank based on silver was clearly demonstrated during the silver price decline. Table 18 shows the high profitability of HSBC relative to the other banks in Asia. Furthermore, the ROA of HSBC always maintained a high standard in comparison with British domestic banks. Curiously, however,

Table 19 Deposits in Asia of CMBILC and CBIAC (£ sterling)

	1878	1879	1880	1881	1882	1883	1884	1885	1886	1887
CBIAC	1,451,102	1,760,068	2,229,463	2,018,389	2,472,189	2,491,430	2,373,461	2,560,324	2,493,227	3,144,806
CMBILC	2,392,460	1,850,032	2,275,422	2,097,653	1,894,196	1,706,378	2,007,154	2,036,255	2,199,890	2,364,132

Source Statements of general balance sheets, MBH 2368, HSBC group archives
Half-yearly branch balance sheets, MS 31519, London metropolitan archives

Table 20 Gross profits of CMBILC and CBIAC in Singapore (£ sterling)

		1881	1882	1883	1884	1885	1886	1887	1888	1889	1890	Total
CMBILC	Interest	669	4,922	5,973	4,183	5,031	6,635	7,717	24,470	25,007	3,792	88,399
	Discount	4,597	5,162	5,000	4,808	6,352	5,678	9,921	7,862	3,905	739	54,024
	Exchange	−1,148	6,150	13,672	2,141	8,290	−5,162	−5,031	−17,166	−8,830	3,168	−3,916
CBIAC	Interest	−22	−3,759	2,886	882	4,126	5,022	575	9,077	9,804	−19,049	9,542
	Discount	4,021	6,650	7,110	5,984	5,780	5,904	5,471	6,359	3,606	1,398	52,283
	Exchange	173	17,941	13,986	17,501	9,397	6,970	22,518	38,195	12,415	20,474	159,570

Source Statements of general balance sheets, MBH 2368, HSBC group archives
Half-yearly branch balance sheets, MS 31519, London metropolitan archives

Table 21 Gold and silver deposits of HSBC ($000 Mexico)

	Gold deposits (%)		Silver deposits (%)		Total
1892	36,000	36.1	53,980	54.1	99,741
1893	30,364	33.8	59,343	66.2	89,708
1894	30,646	29.4	73,654	70.6	104,301
1895	60,728	42.4	82,598	57.6	143,326
1896	61,588	43.5	79,951	56.5	141,539
1897	45,175	37.3	75,845	62.7	121,047
1898	43,073	32.9	87,944	67.1	131,017
1899	61,277	39.1	95,270	60.9	156,546
1900	50,252	33.3	100,490	66.7	150,742

Source Reports of joint-stock banks, Bankers' magazine

Table 22 PER of HSBC and British domestic banks

	1887	1888	1889	1890	1891	1892	1893	1894	1895	1896	1897	1898
HSBC	16.2	13	12.9	9.59	12.9	−12.6	9.93	12.5	11	11.7	10.1	7.46
LJS	20	20.7	21.3	19.4	21.7	23.7	19.6	23	21.6	20.1	18.7	19.9
L&W	21.1	22.9	21.8	19.2	21.8	23	22.5	27.5	25.9	24	21.2	21.6

	1899	1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911
HSBC	10	10.1	12.1	13	13.1	12.3	13.1	15.3	16.3	17.7	18.1	17.6	17.8
LJS	17.9		18.7	19.7	19.3	20.6	19.7	16.7	17.7	18.8	18	17.5	16.4
L&W	18.8		20.8	21.1	21.1	21.1	20.7	18	15.8	20.9		21.2	19.6

Source Reports of joint-stock banks, Bankers' magazine

HSBC's PER was low relative to British domestic banks (see Table 22). Why were the share prices of HSBC lower than the British domestic banks, even though HSBC's profitability was higher? This is because HSBC's profitability fluctuated more than that of the British domestic banks. Accordingly, the evaluation of HSBC's share price was lower.

6 Changes in the Environment for British International Banks in the Early Twentieth Century

From the 1880s to the end of the nineteenth century, the profitability of British international banks fluctuated greatly and showed extremely unstable movements. However, profitability had been stable since the early twentieth century (see Table 18). The problem of silver prices, which had caused the British international banks to be plunged into difficulty, gradually passed in the early twentieth century, as the introduction of the gold standard advanced in Asia.

6.1 Spread of the Gold Standard in Asia

In India, the fall of the silver price affected trade and capital transactions between India and Britain, as well as the 'Home Charge' from India, all of which were important resources for the British government.[62] The government had begun to examine measures to cope with the fall of silver prices in the late 1880s. Discussions began after the Gold Silver Committee was set up in Parliament in 1886, but there were conflicting opinions between the supporters of the gold standard and those of bimetallism. When the decline in silver prices surpassed expectations in the late 1880s, the view of the Indian government concerning the Indian currency system changed. International agreements and bimetallism could not restrain the decline in silver prices. Therefore, the Indian government felt the need to introduce the gold standard to India. The Herschell Committee recommended ending free silver coinage in India in 1893.[63] However, the exchange rate between Indian rupees and British pounds continued to be unstable. The Indian Currency Committee (Fowler Committee) was set up by the British Parliament in 1898 to examine the introduction of the gold standard to India.[64] This committee concluded that the gold standard would benefit India. The Indian government introduced the gold standard in accordance with the committee's advice. However, the gold standard accompanied by the circulation of gold coins was not carried out in India; rather, a gold standard without the circulation of gold coins—a gold exchange standard—was introduced.[65]

The gold standard was also introduced in the Straits Settlements (Singapore, Penang, and Malacca) an important British colony in the early twentieth century. The Straits Settlements Currency Committee was set up in 1903 to examine the currency system in the colonies. The committee recommended the introduction of the gold standard in the settlements. This recommendation was approved by the Legislative Council, and the Settlements Government moved for the introduction of the gold standard.[66]

After the introduction of the gold standard in Germany, the Netherlands also accepted it in 1877. Two years later, the gold standard was introduced into the currency system in the Netherlands East Indies. The Java Bank, a very competent colonial bank, assumed the duty of exchange stability, and the exchange rate in the

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[62]Interest receipts from India were about £ 8 m, home charges and remittances much the same in 1880. Saul (1960), p. 55.

[63]Wilson (2000), p. 83.

[64]Wilson (2000), p. 86.

[65]Although India was not the first country to lead the way to a gold exchange standard, it was the first to adopt it in a complete form. Keynes (1913), p. 33.

[66]Anthomisz (1913), pp. 15–16.

Netherlands East Indies was stable afterward.[67] In 1897, Japan established the gold standard using indemnifications from the Sino-Japanese War.[68] Thailand introduced the gold standard with the strong support of Great Britain in 1902.[69]

Ending the silver standard and introducing the gold standard in Asia (except for China and Hong Kong) were somewhat effective in restraining the fall of silver prices for the British international banks.

6.2 Appearance of New Rivals

However, the British international banks' performance was stagnant from the beginning of the 1890s to the early twentieth century.[70] New trouble appeared for the British international banks at this time: the advance into Asia of the international banks of Europe, America, and Japan.

The Bank of Indochina (Banque de l'Indochine) was founded as a note issue bank in Indochina, which became the advance of France's Asian base in 1875. After the Comptoir d'Escompte de Paris closed its branch in Hong Kong due to a management crisis, the Bank of Indochina opened an office in Hong Kong—its first outside of Indochina—in 1894. France extended its influence into China along the southern route after the Sino-Japanese War. The Bank of Indochina also built a branch network in China and South East Asia along the route of the French government (Bangkok in 1897, Shanghai in 1898, Canton and Hankow in 1902, Battambang in 1904, and Singapore and Papeete in 1905).[71] In contrast, the Russo-Chinese Bank entered in Asia from the northern route. The bank was established in St. Petersburg for the purpose of loan indemnification and security management by a French and Russian financial group in 1896.[72] Another function of the bank that Russian merchants expected was financial transactions for trade between Russia and China. The Russo-Chinese Bank built a widespread branch network in China in the late nineteenth century (Shanghai and Hankow in 1896, Peking and Tientsin in 1897, and Lushun, Dairen, and Harbin in 1898). The bank also opened branches in Yokohama, Kobe, and Nagasaki. The Deutsch-Asiatische Bank, with a head office in Shanghai, was established as a coalition by big German banks in 1889.[73] The bank built a branch network in Asia after the Sino-Japanese War (Calcutta and Berlin in 1896, Hankow in 1897, Tsingtau in 1898, Hong Kong in 1900, Yokohama in 1905, and Singapore and Kobe in 1907).

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67 Spalding (1920), pp. 232–233.

68 The Chinese government had to pay a huge indemnity to Japan because of the defeat in the Sino-Japanese War.

69 Spalding (1920), pp. 199–200.

70 Nishimura (2012a), p. 57.

71 Gonjo (1993), p. 148, p. 156, pp. 161–164.

72 Yago (2012), p. 146, p. 160.

73 Akagawa (2009), p. 4.

Not only did these international European banks enter the banking business in Asia, but US and Japanese banks did as well. The Yokohama Specie Bank, established with the support of the Japanese government in 1880, gained strength via the infusion of Chinese indemnity money. The Yokohama Specie Bank developed a branch network in areas that had deep trade links with Japan.[74] The International Banking Corporation was established in 1902 in the USA as a state bank of Connecticut and established a branch network in the Far East.[75] Judging from the viewpoint of their branch networks, these international banks competed with each other in the financial business involving inter-Asian trade, as well as trade between Europe and Asia. Furthermore, these banks developed intense competition in the loan business in Asian countries, including in China. The British international banks secured a monopolistic position while competing fiercely with each other in the second half of the nineteenth century, but from the late nineteenth century onward, they also faced competition from the international banks of European countries, the USA, and Japan.

7 British International Banks in New York

Since the late nineteenth century, British international banks had also begun to build quite a different branch network. For instance, HSBC opened agencies in New York (1880) and Hamburg (1889),[76] while CBIAC opened agencies in New York (1902) and Hamburg (1904).[77] Since the second half of the nineteenth century, London had stood at the top of a global hierarchy of financial centers under the international gold standard system. The pound sterling, the national currency of Britain, functioned as an international means of payment or settlement in this system. In the early twentieth century, two new challengers appeared. The performance of the USA and German economies improved. The foreign trade of these two countries had increased rapidly since the end of the nineteenth century, while that of Great Britain had stagnated.[78] Since then, the US dollar and German mark began to be used as settlement monies in international trade. As this usage increased, the money markets of New York and Hamburg gradually assumed importance in the international financial market. As the overseas trade of the USA rapidly increased, some foreign banks participated in foreign trade finance with the USA. Table 23 shows the agencies of foreign banks in New York in 1914. It is very difficult to quantify the activities of foreign banks' agencies in New York. Fortunately, some of the accounting documents of the New

[74] Kasuya (2012), p. 167.

[75] Wilkins (1976), p. 107.

[76] King (1987), p. 265.

[77] Mackenzie (1954), p. 218.

[78] Between 1899 and 1913, Britain's share of world trade in manufactures fell from 34 to 31%, while that of Germany rose from 23 to 27.5% and the USA from 11.5 to 13%. Saul (1960), p. 30.

Table 23 New York agencies of foreign banks (1914)

Name	Foreign headquarters	Date established in New York
African Banking Corporation	London	
Anglo-South American Bank	London	1907
Bank of British North America	London	Mid-1850s
Bank of British West Africa	London	
Chartered Bank	London	1902
Colonial Bank	London	1890
Commercial Bank of Spanish America	London	1912
London and Brazilian Bank	London	
London and River Plate Bank	London	
Standard Bank of South Africa	London	1905
The Hongkong and Shanghai Banking Corp	Hong Kong	1880
Bank of Montreal	Montreal	1859
Bank of Nova Scotia	Halifax	
Canadian Bank of Commerce	Toronto	1872
Merchants Bank of Canada	Montreal	
Royal Bank of Canada	Montreal	1899
Banco di Napoli	Naples	
Bohemia Joint-Stock Bank	Prague	
National Bank of Cuba	Havana	
Yokohama Specie Bank	Yokohama	1880

Source Wilkins (1989), p. 464

York Agency of CBIAC are available.[79] We shall clarify the activities of the foreign banks in New York based on these archived documents.

7.1 Early Business of CBIAC in New York

Table 24 shows the balance sheets of the New York Agency of CBIAC at the end of 1905. On the asset side, the largest account was 'advance bills' (pound sterling and US dollars), amounting to 2 million US dollars. The advance bill was a bill of exchange payable in pound sterling or US dollars by an importer in Asia.[80] When an exporter in the USA quoted the value of his goods in pound sterling or US dollars, the exporter drew advance bills in pound sterling or US dollars on his customers in Asia. The use of advance bills allowed the exchange risks inherent in the trade

[79] See Footnote 18.

[80] Mackenzie (1954), p. 46.

Table 24 Balance sheet of CBIAC in New York (1905) (US dollar)

Liabilities			Assets		
Bills received for collection	861,609	22.9%	Cash on hand	244,448	
			Bills receivable	1,282,955	34.2%
Usance drafts a/c	1,315,000	35.0%	Sterling advance bills	1,430,975	38.1%
London exchange a/c	1,037,157	27.6%	Dollar advance bills	590,799	15.7%
Inter-agencies outward a/c	10,247		Inter-agencies outward a/c	68,999	
Inter-agencies inward a/c	343,296		Inter-agencies inward a/c	59	
			Adjusting a/c	69,614	
Total with others	3,756,291		Total with others	3,756,291	

Source Half-yearly branch balance sheets, MS 31519, London metropolitan archives

to be transferred to the importers in Asia. The banks readily provided advances to the exporters against the bills and were remunerated by charging interest to either the drawers or the drawees, depending upon the nature of the sale contracts. These transactions of advance bills constituted the most important business for foreign banks in New York.

The second major account on the asset side was 'bills receivable.' Most bills of exchange included in the account were sent from Asia. The branches in Asia bought the bills of exchange on New York from exporters in Asia and sent them to the New York Agency of CBIAC. The agency had to hold them until the importers paid the amounts of the bills, because New York did not have a discount market. In all, 'advance bills' and 'bills receivable' (3.3 million US dollars) accounted for 88% of the total assets of the agency.

There were three major accounts on the liability side: 'usance draft,' 'London exchange account,' and 'bills received for collection.' The deposit account was missing from this balance sheet. After the national banking legislation was passed in 1863, the USA had a dual banking system. Any foreign bank from abroad not only faced federal regulation but was also subject to regulations in each state in which it transacted business. Foreign banks in New York were governed by New York State Law and could not take deposits, discount notes, or bills.[81]

How did CBIAC in New York, which was prohibited from taking deposits, raise funds? The New York Agency raised funds by selling bills on London. When the agency sold bills (usance bills) on the London head office, usance bills were entered as liabilities in the account books of the agency. After the London head office paid the amounts of the bills, these amounts were entered as assets in the account books in London; they were entered into the 'London exchange account' on the liability side in the agency's account book. The main source of funds for the New York Agency

[81] A 1914 New York banking law clearly stated the prohibitions on foreign bank branches. A foreign banking institution could establish an agency to do limited business, not including the issue of notes or the receipt of deposits. Wilkins (1989), p. 456.

Table 25 Exchange business of CBIAC in New York (US dollars)

	1902	1903	1904	1905	1906	1907
Advance bills	759,320	542,967	2,075,960	2,021,774	2,088,956	1,768,237
LEA + usance bills	1,074,058	267,841	2,141,157	2,352,157	2,103,950	2,191,398

Source Half-yearly branch balance sheets, MS 31519, London metropolitan archives

comprised the sales of bills on London. As described above, transactions of bills of exchange constituted the most important business in New York for foreign banks.

Table 25 presents details on the exchange business at the New York Agency of CBIAC from 1902 to 1907. The change in the total of 'London exchange account' (LEA) and 'usance bills' is very similar to that of 'advance bills.' Due to the inability to take deposits in New York, the agency raised funds for advance bill purchases by selling bills on the London head office. Thus, the exchange business of the New York Agency depended completely on funds from the London head office.

7.2 Increasing Use of US Dollars in Foreign Trade with America

In the beginning of the twentieth century, most overseas trade with America was settled in pound sterling. The pound sterling bill was the instrument most readily received in payment for American imports. Moreover, the pound sterling bill was the bill most universally offered in payment for American exports.[82]

Table 26 shows the balance of 'advance bills' transacted by the New York Agency of CBIAC (1902–1912). When CBIAC opened its agency in New York in 1902, the total balance of 'advance bills' was 759 thousand US dollars. Thereafter, the balance of 'advance bills' amounted to over 2 million US dollars from 1904 to 1906. The balance of 'advance bills' decreased to 1.7 million US dollars due to the financial panic of 1907. After falling to 576 thousand US dollars in 1909, the balance of 'advance bills' recovered rapidly and reached 3 million US dollars by 1912.

In 1902, the amounts of pound sterling advance bills and US dollar advance bills were 536 thousand US dollars and 222 thousand US dollars, respectively (see Table 26). Constituting 70.6% of the total advance bills, the pound sterling bills thus accounted for the majority of advance bills. From 1902 to 1906, the balance of US dollar bills remained stagnant at around 30%. However, the proportion of US dollar bills increased rapidly from 1907. In 1912, they comprised 77.5% of the total balance of the advance bills. Before the outbreak of the First World War, the US dollar had already replaced pound sterling as the settlement currency for American export trade to Asia.

[82]Brown (1940), p. 143.

Table 26 Balance of advance bills of CBIAC in New York (US dollars)

	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912
Sterling advance bills	536,428	319,335	1,465,156	1,430,975	1,334,231	735,658	426,828	231,009	416,552	579,696	676,183
Dollar advance bills	222,892	223,632	610,804	590,799	754,725	1,032,579	453,314	345,753	993,290	1,088,170	2,324,662
Total	759,320	542,967	2,075,960	2,021,774	2,088,956	1,768,237	880,142	576,763	1,409,842	1,667,867	3,000,845
Dollar advance bills/total (%)	29.4	41.2	29.4	29.2	36.1	58.4	51.5	59.9	70.5	65.2	77.5

Source Half-yearly branch balance sheets, MS 31519, London metropolitan archives

7.3 *Development of the International Money Market and the New York Agency*

After its establishment, the total assets of the New York Agency showed a modest expansion, followed by a decrease due to the financial panic of 1907. Table 27 presents the main items of the agency's balance sheet from 1910 to 1919. The agency's business suddenly improved in 1915. In 1914, its total assets stood at 3.3 million US dollars, thereafter increasing rapidly to 6.8 million US dollars in 1915. New titles—'bills discounted' on the asset side and 'liabilities on bills discounted' on the liability side (entry processing for contingent liabilities)—were added to its balance sheet accounts in 1915. These new account titles were related to the foundation of the discount market in New York, the basis of its creation being the Federal Reserve Act of 1913, which gave to US national banks the power to accept bills drawn upon them and allowed the acceptances to be eligible for discount and purchase at the Federal Reserve Banks.[83]

The New York Agency of CBIAC had to hold the bills received from branches in Asia until their due dates. After the passage of the Federal Reserve Act, however, the agency was able to discount these bills in the New York discount market. In addition, the agency's exchange business prospered with the expansion of US trade with Asia during the First World War. The balance of 'bills discounted' on the asset side and 'liabilities on bills discounted' on the liability side increased rapidly from 1915 through 1919, reaching a total of over 12 million US dollars in 1919 (see Table 27). Thus, the agency was able to raise the efficiency of the turnover of funds, which appears as an increase in the cash account on the asset side. The value of the cash account increased from 118 thousand US dollars in 1914 to 480 thousand US dollars in the following year. Similarly, the amount of 'advance' on the asset side also showed a rapid increase. The exchange business in New York increased rapidly after the foundation of the discount market and the outbreak of the First World War.

Simultaneously, a major change occurred at the London head office of CBIAC. The scale of business at the London head office was greater than that at the New York Agency (see Table 28). In 1913, the total assets of the London head office amounted to 21.5 million pounds sterling, but they decreased drastically to 15.3 million pounds sterling in 1914 and then increased slightly to 16.8 million pounds sterling in 1915. The biggest contributing factor was the decrease in 'bills discounted.' Similarly, the 'acceptance accounts' of the London head office show a significant decrease from 1915 to 1916. The outbreak of the war prevented direct remittances to London from the continent, especially from Germany, suddenly paralyzing the London money market.[84]

It can be said that the large expansion in the exchange business in New York and the sudden decrease in London were two sides of same coin. CBIAC supplemented part of the reduction of the exchange business in London through expansion in New

[83]Brown (1940), p. 147.

[84]Brown (1940), p. 11.

Table 27 Balance sheet of CBIAC in New York (US dollars)

	1910	1911	1912	1913	1914	1915	1916	1917	1918	1919
Liabilities										
Bills received for collection	386,231	595,084	1,220,053	537,990	434,163	999,733				
Usance drafts on head office	100,000			2,500,000		885,000	885,000			
Loans from head office					1,750,000					
Loans payable						750,000	1,500,000	500,000		
Securities held in London against loans in NY							750,000	500,000		
Liability on bills discounted						1,364,689	1,831,596	4,553,145	4,690,330	12,256,075
London exchange a/c	1,259,038	1,729,076	3,025,327	965,207	153,066	1,987,448				
Inter-agency balances	698,899	523,251	937,458	778,992	918,712	712,741	3,045,180	7,672,768	9,926,404	16,515,097
Total with others	2,497,410	3,204,169	5,227,231	4,874,842	3,368,046	6,849,734	8,181,763	13,808,683	15,161,693	29,446,357
Assets										
Cash	100,929	236,364	301,003	122,826	118,302	480,701	453,782	15,561	912,371	1,190,373
Bills receivable	475,205	613,671	525,566	454,416	853,370	161,017	290,059	1,104,716	2,069,682	2,656,300
Bills held o/a head office and others	386,231	595,084	1,220,053	537,990	434,163	999,733				
Sterling advance bills										
Dollar advance bills										

(continued)

Table 27 (continued)

	1910	1911	1912	1913	1914	1915	1916	1917	1918	1919
Advances	1,409,842	1,667,867	3,000,845	3,461,198	1,839,012	2,710,532	3,621,846	6,930,676	6,860,485	9,266,477
Current a/c overdrafts	31,925	15,400	17,269	36,249	17,233	17,960	23,068	37,025	38,973	59,121
Securities against loans						885,000	1,635,000	500,000		
Bills discounted						1,364,689	1,831,596	4,553,145	4,690,330	12,256,075

Source Half-yearly branch balance sheets, MS 31519, London metropolitan archives

Table 28 Balance sheet of the London head office of CBIAC (£ sterling)

	1913	1914	1915	1916	1917
Liabilities					
Capital	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Reserve fund	1,700,000	1,800,000	1,800,000	1,800,000	1,900,000
Current account	910,898	1,071,086	1,335,430	1,579,482	1,839,526
Deposit receipts	3,630,849	3,836,307	3,799,011	3,704,864	3,979,253
	1,210,000				
Acceptances	1,409,563	1,258,551	679,481	849,623	1,186,927
Liabilities on bills discounted	6,957,963	3,081,969	2,460,641	5,681,418	4,994,406
Branches			1,737,779		
Total with others	21,561,418	15,358,122	16,844,138	20,458,581	20,955,846
Assets					
Cash and deposits	43,220	715,986	1,434,217	746,909	47,596
Securities	2,288,579	3,595,539	3,620,685	3,510,497	3,531,679
Treasury bills			1,800,000	1,269,000	1000
Bills receivable	1,047,106	1,712,881	2,682,185	2,844,103	1,776,691
Advances	2,141,292	1,314,119	1,216,407	1,576,931	1,946,005
Acceptances	1,439,346	1,258,977	679,481	851,134	1,186,927
Bills discounted	6,957,963	3,081,969	2,460,641	5,681,418	4,994,406
Branches	3,811,796	677,566		1,636,247	4,144,156

Source Half-yearly head office balance sheets, MS 38430, London metropolitan archives

York. In other words, the New York money market complemented the international financial market in London during the First World War.

Table 29 displays a breakdown of 'advance bills' in New York from 1913 to 1919. The amount of the dollar advance bills rose from 70 to 90%. During the First World War, use of the US dollar expanded in the trade from America to Asia. The New York money market developed during the First World War, and the opening of the

Table 29 Balance of advance bills of CBIAC in New York (US dollars)

	1913	1914	1915	1916	1917	1918	1919
Sterling advance bills	1,394,922	620,825	784,235	438,415	654,829	638,140	832,995
Dollar advance bills	2,066,275	1,218,184	1,926,296	3,183,427	6,275,847	6,222,343	8,433,481

Source Half-yearly branch balance sheets, MS 31519, London metropolitan archives

discount market as an international financial market helped increase the use of the US dollar as the international currency.

8 Conclusion: Asian Diversity

Asia was one of the areas which British international banks entered late, mainly because of the East India Company's monopoly on exchange transactions between Europe and Asia. OBC was the first mover to receive a Royal Charter and developed a banking business in Asia despite obstacles. Several banks were established in Asia, leading to competition, but OBC's superiority remained steady during the 1860s.

However, by the late 1870s, this situation began to change. OBC collapsed in 1884, while HSBC strengthened rapidly in the 1880s. Throughout the history of the British international banks, the circumstance whereby the first mover went bankrupt and closed was unique to Asia. In Australia, the Bank of Australasia and the Union Bank of Australia became leaders in the area from the 1840s through to the early twentieth century. The Bank of British North America secured a strong position among British international banks in Canada while facing intense competition with strong local banks. The Standard Bank of South Africa in Africa and the London and River Plate Bank in South America maintained their strong positions as first movers. The biggest factor in OBC's failure was the fall in the silver price. Not many areas in Asia were affected by the silver price fluctuations, because many countries in Asia had a silver standard in the second half of the nineteenth century.

Another important characteristic of Asia was the diversity of its political situations. Asia was an aggregation of various political systems, including official and informal empires and independent countries. Many international banks and colonial banks of various nationalities went to Asia. Therefore, the British international banks not only competed with each other in Asia, but also faced competition from the international banks of various nations. This diversity in Asia was the crucial problem that the British international banks in Asia faced before the First World War.

The greatest change in the early twentieth-century international finance was the development of an international money center in New York. The use of the US dollar increased rapidly in export trade from America to Asia before the First World War. Several British international banks went to New York in the early twentieth century. These New York agencies handled dollar-based bills in US foreign trade. In addition, when the discount market was established in New York, these banks used the money market extensively and extended the scale of the business the banks did in New York. The British international banks played an important role in the globalization of the New York financial market that had occurred since the First World War.

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Chapter 5
British Overseas Banks' Activities in the London Financial Market Before the First World War from a View Point of Bill Transactions

Toshio Suzuki

Abstract This chapter intends to shed light upon the activities of British overseas banks' London offices in the period from the mid-nineteenth century to the eve of the First World War (1913). The main sources of sterling for their banking operations can be classified into the following activities: receiving fixed deposits in Britain; collecting bills from acceptors that their Asian branches purchased and sent to London; and selling bills to bill-brokers or discount houses. British overseas banks effectively invested the funds thus raised in the following ways: purchasing bills of exchange drawn by British exporters to Asia, and sending them for collection to Asian branches; purchasing Indian Council Bills and sending them to Indian branches; sending gold and silver bullion to Asian branches; undertaking or subscribing bonds that Asian countries floated in London; depositing money into corresponding banks as cash reserves for paying telegraphic transfer and money exchange; and lending call money or short-term money. They carefully avoided exchange and credit risk, and benefited ultimately from these operations. The chapter will focus on a variety of transactions between British overseas banks and the London clearing banks. At first, the businesses of British overseas bank London offices will be scrutinized. The role of bills on London through the mechanism of the multilateral trade system of settlements will be shown. Then, the structure and function of the London discount market, which played a substantial part of circulating bills among financial institutions in London, will be described empirically.

Keywords British overseas banks · The London clearing banks · The London discount market · Bill acceptance · Bills on London

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1 Introduction

This chapter intends to shed light upon the transactions between British overseas banks' (hereafter Bobs') London offices and the London financial market.[1] The main sources of sterling for their banking operations can be classified into the following three activities: (1) receiving fixed deposits in Britain; (2) collecting bills from acceptors that Bobs' Asian branches purchased and sent to London[2]; and (3) selling bills to bill-brokers or discount houses in the London discount market.

The funds thus raised were invested effectively by Bobs in the following ways: (1) purchasing bills of exchange, drawn by British exporters to Asia, which were mainly silver- or tael-denominated bills until the 1880s and then sterling-denominated interest [clause] bills or advance bills,[3] and sending them for collection to Asian branches in the form of "bills receivable"; (2) purchasing Indian Council Bills and sending them to Indian branches[4]; (3) sending gold and silver bullion to Asian branches according to foreign exchange rate fluctuations; (4) undertaking or subscribing bonds that Asian countries floated on the London capital market; (5) depositing money into corresponding banks as cash reserves; and (6) lending call money or short-term money at notice, in order to invest it as second-line reserves.

In addition to these functions, Bobs would often hold British colonial bonds or gilt-edged foreign bonds as both reserves and investments.[5] These cash and second-line reserves at the London offices played a significant role in paying bills on London or telegraphic transfers to London, when Asian branches sold sterling exchanges to customers. At the end of the nineteenth century when the establishment of the gold standard rapidly boosted the international trade and investment operations, the London financial market mainly financed bill transactions.

This chapter analyzes a variety of bill transactions between Bobs and London clearing banks (hereafter Lcbs) on the London discount market in the period from the mid-nineteenth century to the eve of the First World War. First, the roles of Bobs'

[1] Here, the terms of British overseas banks mean the banks that specialized their transactions mainly in Asia and are interchangeable with those of eastern exchange banks.

[2] Usually, they were sterling-denominated bills on London, drawn by exporters in Asia on importers in Britain as the means of payments of imported goods.

[3] An interest [clause] bill was a sterling-denominated bill of exchange drawn for payment of British export goods from Asian countries. On the face of the bill, there was an interest clause that the acceptors of this bill, namely an importer in Asia, should pay to the drawer, an exporter in Britain, an annual interest at approximately 6% for the period from the drawing bill to the receiving of the proceeds of the bill. In this way, those who purchased these bills were to be guaranteed to receive high returns, nearly 6%, by avoiding risks of fluctuations in exchange rates. Indeed, following the 1870s, many British exporters were inclined to suffer from the foreign exchange losses because of the decline of the silver price, when they drew silver-denominated bills of exchange on importers in Asia.

[4] In order to raise the home charges that India had to pay to Britain, the Indian Council in London sold Indian Council Bills in sterling. In India, these bills were paid bearers in rupees on demand from the treasury of the Viceroy of India.

[5] These bonds with high liquidity on the market were called the "Lombard Street," a cash box. Their investments were committed to a London manager at Bobs or agent (Baxter 1883, p. 110).

London (head) offices will be scrutinized. We describe the process of drawing and accepting bills on London through the mechanism of multilateral systems of trade settlements. The structure and function of the London discount market, which played a substantial role in circulating bills among financial institutions, will be illuminated empirically. Since it was observed that "they [our three months bills] will be much in demand by the clearing banks, who like to buy them from us for their own portfolios, considering them just about the finest liquid investment they can have",[6] the fact that financial institutions deemed bills to be safe and profitable financial instruments and products will be emphasized.

2 British Overseas Banks in London

2.1 Roles of London Offices

Overseas Bank Charters

During the nineteenth century, Bobs' business area was relatively undefined. In Britain, the business of exchange or money remittance to/from abroad was usually carried out by not only bankers but also merchants or bill-brokers.[7] What kind of business, then, could Bobs perform in London? In 1851, in outlining the scope of its business, the charter of the Oriental Bank Corporation (hereafter OBC), stated that the OBC should "carry on the business of exchange, deposit, and remittance only, and not the business of banking".[8]

Although it is not so clear as that of the OBC, the charter conferred in 1853 to the Chartered Bank of India, Australia, and China (hereafter CB) described its activities of business as "[the CB] is and shall be established … to conduct the business of exchange, deposit, and remittance in connection with their other establishments …,".[9]

In 1880, the Select Committee on Chartered Banks (Colonial) Bill in the House of Commons discussed the scope of banking business that Bobs' London offices could carry out. When Robert Lowe, the Chairman, asked the question "do any of these banks [Bobs] carry on business in England?", R.E. Welby at the Treasury answered "I may say that every charter only incorporates them for the purpose of carrying on business in the Colonies. Perhaps there is one charter, a clause in which might be read otherwise, that is the charter of the OBC. In so far as the Treasury are aware, the conditions of the charters are observed; we have no evidence before us that they

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[6]Gillett Brothers Discount Co. Ltd. (1952, p. 57).

[7]National Archives, TS 25/879, C. Crafer (Treasury Chambers), 27 September 1855.

[8]National Archives, National Archives, TS 18/434, Bank Charters, vol. ii, Oriental Bank Corporation: Charter of Incorporation, p. 200.

[9]National Archives, TS 18/434, Bank Charters, vol. i, Royal Charter of the Chartered Bank of India, Australia, and China, pp. 6–7.

carry on business in London".[10] In the Committee, the Treasury repeatedly insisted that there was no evidence of overseas banks' doing business in Britain.[11] Yet, a member of the Committee, John Lubbock, pointed out that it was widely recognized that Bobs did a large amount of business in London and even issued checkbooks.[12]

Reading the OBC's charter, the Committee actually questioned "what is meant by the word 'banking' in that charter … because they [the OBC] appear to be able to take deposits in London but not carry on 'banking'". The Treasury replied "there is a definition of banking, that it is paying across the counter on demand".[13] Lowe persistently continued to question the intent of the term "banking" by saying that "it would seem that they may take money in London, but they must not pay it back", and eventually the Treasury admitted the ambiguity.[14]

As for the activities of the CB's London head office, Compton Mackenzie, in its official history, *Realms of Silver*, stated that "until 1909 the CB had no authority to carry on a general banking business in London like that of the English banks. Therefore[,] when [the] head office accepted current accounts for the convenience of customers in the East the necessary cash always had to be obtained from the City Bank. Any check or bank draft presented at Hatton Court [the head office of the CB] was marked for payment, and taken across Threadneedle Street for settlement. Similarly[,] all cash and checks received over the counter at [the] head office were paid into the City Bank to the credit of the CB's account there. [The] head office was concerned with exchange and remittance business and the supervision of its branches and agencies overseas".[15] Mackenzie clearly points out an important relationship between overseas banks and the London financial market. Either Bobs or foreign banks that intended to carry on business in London had to make a correspondent contract with the Lcbs because only the LCBs were able to handle the business of clearing a current account in London.

Revisions of the charter conferred on the CB also show changes in its business area in London. At first, it had been confined to "exchange, deposit, and remittance" in the eastward of the Cape of Good Hope alone. As a result of the progress of globalization from the end of the nineteenth century, however, in 1904, the CB applied to the Treasury for a supplementary charter making it possible to open branches and

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[10]Report from the Select Committee on Chartered Banks (Colonial) Bill; together with the Proceedings of the Committee, Minutes of Evidence and Appendix, British Parliamentary Papers (hereafter B.P.P.), 1880, viii, Q. 5.

[11]Report from the Select Committee on Chartered Banks (Colonial) Bill; together with the Proceedings of the Committee, Minutes of Evidence and Appendix, B.P.P., 1880, viii, QQ. 118–9 (Welby).

[12]*The Times*, 4 March 1880.

[13]Report from the Select Committee on Chartered Banks (Colonial) Bill; together with the Proceedings of the Committee, Minutes of Evidence and Appendix, B.P.P. 1880, viii, Q. 10 (Lowe and Welby).

[14]Report from the Select Committee on Chartered Banks (Colonial) Bill; together with the Proceedings of the Committee, Minutes of Evidence and Appendix, B.P.P. 1880, viii, Q. 11.

[15]Mackenzie (1954, p. 146).

agencies westward of the Cape of Good Hope.[16] Subsequently, in 1909, the CB again applied to the Treasury to lift restrictions limiting the value of land and buildings in the United Kingdom to £2000, and to give it power to do all the business of banking there, in order to encourage banking business in the British colonies and dependencies.[17]

2.2 Foreign Exchange Operations

Who were Foreign Exchange Brokers?

By drawing bills of exchange in the payment of debts abroad, "the risk and expense attending the transportation of specie are avoided".[18] Until the early part of the 1850s, when many applied to the Treasury for charters to set up exchange banks in Asian trade, the business of foreign exchange, remittances, and advances on documentary bills between Britain and the East Indies had been conducted exclusively by merchants, not bankers. This is why "foreign bills are never said to be discounted, but to be sold".[19] Naturally, a number of merchant organizations with interest in foreign exchange transactions objected to the new large-scale encroachment of Bobs into their business area.[20]

In 1852 G.M. Bell, the Secretary of the London Chartered Bank of Australia and the author of the famous book *Philosophy of Joint Stock Banking*, gave a lecture concerning foreign and colonial exchange at the Banking Institute. He said, "The selling and negotiating foreign bills of exchange is a branch of business which, in this country at least, is independent of banking. English bankers do not engage in this sort of traffic. It is carried on by a distinct class of men, called 'exchange brokers'".[21]

Merchants and Merchant Bankers

Who were "exchange brokers" at that time? Examining the origins of foreign exchange brokers, we should turn our attention to the activities of Goldsmid & Co. Aaron Goldsmid, a Jewish merchant, who migrated from Holland to England in 1765, acted as "the middleman between the market and the monied interest". This sort of business, "bill brokering", did not come to be known generally in England until about 1777.[22] It is a well-known fact that Goldsmid's two sons, Benjamin and Abraham, successfully built up a global business correspondent network and engaged

[16] National Archives, Kew, TS 18/434, Treasury Chambers (E. W. Hamilton), 26 March 1904.

[17] National Archives, Kew, TS 18/434, Treasury Chambers, 19 February 1909.

[18] Foster (1840, pp. 80–81).

[19] Foster (1840, p. 80).

[20] *Report of the Committee of the Liverpool East India & China Association*, 1853, p. 8 (quoted from Marriner 1961, pp. 201–2).

[21] *The Bankers' Magazine*, 1852, p. 626.

[22] Alexander (1808, pp. 5 and 16).

in foreign bill transactions on a large scale, just like a merchant banker.[23] Financial historian S.R. Cope mentions that Goldsmid & Co. got involved in "extensive foreign transactions".[24]

Following the Goldsmids, in 1832 Nathaniel Meyer Rothschild, the head of the eminent London merchant bank N.M. Rothschild & Sons Co. (hereafter N.M. Rothschild), explained contemporary foreign bill transactions at the Parliamentary Committee: "I buy on the exchange bills drawn from Liverpool, Manchester, Newcastle, and other places, and which come to every banker and merchant in London. I purchase £6000 or £7000 and sometimes £10,000 of those bills in a week, and I send them to the Continent to my houses; my houses purchase against them bills upon this country, which are drawn for wine, wool, and other commodities; but if there is not a sufficient supply of bills abroad on this country, we are obliged to get gold from Paris, Hamburg, and other places".[25]

Thus, N.M. Rothschild purchased foreign bills drawn by British exporters and sent them to the houses on the Continent for collection; conversely, the Continental houses bought bills drawn by exporters there and the bills were to be sent to Britain for collection. However, the bill payments were to be offset internally between N.M. Rothschild and its affiliated houses, and only any remaining balance would be settled by shipments of gold.

2.3 Deposits

Deposits at Bobs became a principal source of investment funds, as the Chartered Mercantile Bank of India, London, and China [hereafter CMB] was clearly aware. "The first principle which you must always bear in mind, and which nothing should tempt you ever to lose sight of, is that the capital of the Bank [the CMB] and the deposits of its customers are entrusted to the directors, and by them to its officers, to invest, but not to speculate with".[26] There were two kinds of deposits that Bobs

[23]"Benjamin and Abraham were referred to at various times as bill brokers, money dealers, loan contractors, dealers in the funds, monied men, merchants and so on. They were in fact all of these. Had they lived fifty years later they would have been described as merchant bankers" (Cope 1942, p. 184); *The Times* depicted Abraham Goldsmid, as well as Francis Baring as "the pillars of the city" (29 September 1810).

[24]Cope (1942, p. 184).

[25]Report from the Committee of Secrecy on the Bank of England Charter; with the Minutes of Evidence, Appendix & Index, B.P.P., 1831–32, vi, Q. 4877.

[26]HSBC Group Archives, Chartered Mercantile Bank Archives, 1173, Chartered Mercantile Bank of India, London, and China, London; 15th July 1858, p. 2.

accepted, current accounts on deposit and fixed deposits. In particular, long-term deposits like fixed deposits were more important because they played a significant role as funds for the purchase of export bills and the payment of telegraphic transfers. Table 1 lists the amounts of the CMB's current and fixed deposits by branch in February 1893.

The Bobs' London offices were keen to establish an agent in Scotland and to collect fixed deposits there. Scotland became a major source of foreign investment in Britain. In general, the Scottish were quite risk averse toward foreign investment. In order to encourage highly profitable foreign investment, a variety of financial institutions were set up in Scotland. It was an investment trust company, one of the new financial intermediaries, that was able to disperse risk by collecting small amounts of funds from many investors and widening the scope of investment objects. In the 1870s, many new investment trust companies were founded in London, Edinburgh, and Dundee one after another. Even now in Edinburgh, the foreign investment center for Scottish capital, there are many investment services companies.[27] John Guild, the Chairman of the First Scottish American Investment Trust in Dundee, a trust company in American railways, was proud of his investment trust company's 6% dividend, while the interest on first-rate railway company debentures in Britain was approximately 4 to 4 1/2%.[28] From a risk/return viewpoint, it is obvious that many investors would regard deposits at Bobs as safe and highly lucrative because the OBC paid a 6% rate of interest to depositors.

At the end of the 1850s, Bobs began to accept a large amount of deposits in Scotland. An Australian banker resident in London observed that "Edinburgh seems honeycombed with agencies for collecting money not for use in Australia alone, but for India, Canada, South America—everywhere almost and for all purposes".[29] J.D. Bailey, who studied Australian investment by British capital, indicated close correspondent relations between Scottish and Australian banks. The Bank of Scotland acted as a significant agent for plenty of Australian banks.[30] It was said that David Davidson, Treasurer at the Bank of Scotland, was very willing to conclude an agent contract with many Bobs including the Bank of New Zealand, the CMB in cooperation with the Royal Bank of Scotland, the Otago Bank, the OBC, and the London Colonial Bank in cooperation with the British Linen Bank.

Current Account Deposits

The attitude of the CMB toward current account deposits was very active. Its instructions, issued by the London head office, noted that "although we do not profess to open current accounts for parties quite unconnected with the East, we are all at times willing to do for our branch customers or their parties as well as for parties whose

[27] *The Financial Times*, 18 February 1994.

[28] Gilbert (1939, pp. 16–17).

[29] Baxter (1883, p. 81).

[30] Bailey (1959, p. 271).

Table 1 Current account deposits and fixed deposits at Chartered Mercantile Bank (3 February 1893)

	London	(%)	Edinburgh	(%)	Bombay	(%)	Calcutta	(%)	Rangoon	(%)	Madras	(%)	Colombo	(%)	Kandy	(%)
Current Deposits, (1)	40,754	12.41			44,721	13.61	39,781	12.11	1,294	0.39	42,243	12.86	39,781	12.11	38,009	11.57
Ratio to Branch-total, (1)/(3)		2.62				27.57		28.68		49.00		36.33		49.50		75.52
Fixed Deposits	426,027	39.07	238,699	21.89	82,724	7.59	94,341	8.65	1,326	0.12	69,893	6.41	30,321	2.78	11,823	1.08
Ratio to Branch-total, (2)/(3)		27.39		100.00		51.00		68.01		50.21		60.10		37.73		23.49
Branch-total, (3)	1,555,302 Gale	58.50 (%)	238,699 Singapore	8.98 (%)	162,215 Malacca	6.10 (%)	138,717 Penang	5.22 (%)	2641 Batavia	0.10 (%)	116,287 Hongkong	4.37 (%)	80,361 Shanghai	3.02 (%)	50,332 Total	1.89 (%)
Current Deposits, (1)	22,533	6.89	25,704	7.82	6738	2.05	9,608	2.92	2,182	0.66	7,147	2.18	7,990	2.43	328,493	100.00
Ratio to Branch-total, (1)/(3)		52.43		32.44		47.19		32.31		14.16		7.66		20.39		12.36
Fixed Deposits	20,259	1.86	30,546	2.80	2,754	0.25	8,362	0.77	13,053	1.20	38,373	3.52	21,801	2.00	1,090,309	100.00
Ratio to Branch-total, (2)/(3)		47.14		38.55		19.29		28.12		84.72		41.15		55.63		41.01
Branch-total, (3)	42,974	1.62	79,230	2.98	14,277	0.54	29,740	1.12	15,408	0.58	93,244	3.51	39187	1.47	2,658,619	100.00

Note Sterling pound

Source HSBC Archives, Chartered Mercantile Bank Archives, 2372, General Balance—Precise Financial Position, 3 February 1893 accounts are likely to bring us other business in our underline".[31] Table 1 lists both the current account deposits and the fixed deposits on February 3, 1893, just on the eve of its suspension of payment. It is obvious from this that the London head office and the Edinburgh agent collected a little over 60% of the total fixed deposits, and the proportion of the current account deposits was much higher than that of the fixed deposits at local branches.[32]

Fixed Deposits

As noted earlier, on one hand, the OBC engaged in the business of foreign exchange and transfer for those involved in Asian trade, while on the other, it received fixed deposits for 3, 6, and 12 months. In order to collect deposits in Scotland, the bank opened an agency in Edinburgh where it paid higher interest rates (by 2 to 3 1/2%) to depositors.

In 1852, the OBC nominated the National Bank of Scotland as an agent in Scotland.[33] In 1862, R. Duncan Kay at 23 St. Andrew Square, Edinburgh, as well as the National Bank of Scotland and the Commercial Bank of Scotland, became an OBC's agent in Scotland.[34] At the end of the 1860s, the Bank of Scotland and the British Linen Bank participated in these agencies.[35]

Some of the OBC advertisements in issues of the *Banking Almanac* referred to its deposit business. In 1852, one claimed that the OBC paid interest on deposits of more than £100 per month from shareholders, constituents, and service officers resident in the East Indies, Ceylon, and China.[36] In 1858, it advertised paying interest at a rate 1% less than the bank rate on deposits at ten days' notice for amounts over £100 per month and much higher interest to longer time deposits and fixed deposits.[37] In the 1861 advertisement, the minimum deposit was set at £100, and the Bank guaranteed to pay at least 2% interest rate on deposits at ten days' notice. The interest rates at that time applicable to deposits were 3% at ten days, 4% at six months, and 5% at one year.[38]

It seems likely that many of the Bobs would emulate OBC's policies. In fact, the Chairman of the CB said in the annual meeting of 1861 that most deposits at his bank bore interest and the rates of interest were fluctuating, even though it seemed to be inadvisable for the CB to announce the deposit amounts and rates to the public. He added that the CB adopted the same rule as the OBC and paid 5% interest on deposits at four months and one-year notice.[39]

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[31] HSBC Group Archives, Chartered Mercantile Bank Archives, 2400, Instructions, Current Account in Head Office, HO Circular to Branches of 9 October 1891.

[32] Northcote Cooke (1863, pp. 150–1).

[33] *Banking Almanac*, 1852, p. 161.

[34] *Banking Almanac*, 1861, p. 203.

[35] *Banking Almanac*, 1872, p. 251.

[36] *Banking Almanac*, 1852, p. 162.

[37] *Banking Almanac*, 1858, p. 196.

[38] See Footnote 34.

[39] *The Bankers' Magazine*, 1861, p. 373.

The details of commissions paid by the Hongkong and Shanghai Banking Corporation (hereafter HSBC) were disclosed when J.L. Hill & Co., an Edinburgh agent of the HSBC, accepted deposits in 1881. The HSBC paid 0.375% of the total amount of deposits, then 1% of the amount transferred to the HSBC London office, and £40 as annual advertisement charges. The total cost of collecting deposits in Edinburgh amounted to 5 1/2%, so David McLean, the HSBC's London manager, considered deducting the commissions paid to J.L. Hill & Co. because the bank could easily obtain money at 5% interest at that time.[40]

Important Role of Branch Deposits

Because the value of silver declined steeply after 1873, the OBC accordingly depreciated its assets in silver standard areas. They had originally been transferred and invested from Britain, a gold standard area. Hence, the OBC went into bankruptcy in 1884.[41] The CB, which learned its lesson from the OBC's failure, decided to draw the branch capital of silver standard areas into London, except for the Yokohama, Manila, and Batavia branches, which were in gold standard areas in Asia. Now, the branches without capital had to depend not upon funds transferred from London but on those the branches raised locally as deposits.[42] However, from the beginning, Bob branches had paid close attention to their local depositors. The CMB's rules of business, stipulated in 1858, declared that advances and discounts at a branch "should be regulated by the extent of your current deposits, and the reasonable requirements of shareholders and customers keeping their banking accounts with your branch".[43]

The HSBC's renowned "on an even keel" policy[44] made it possible to advance and discount using a branch's own funds (deposits) and to avoid moving funds from London (a gold standard area) to Asia (silver standard areas), in order to protect the HSBC from the risk of declining silver prices. In fact, McLean in London wrote to the Hong Kong head office to the effect that "if they [sterling deposits in London] are sent out to the East and employed there in local advances, any sudden fall in silver might affect your profits considerably. But if the deposits are kept moving in outward and homeward remittances [the purchase of export bills, and the payments of remittance drafts and telegraphic transfers in London] there would be little or no danger on this score. All your silver deposits in the East could be employed in local advances and our sterling deposits [in London] available for sterling purpose".[45] The HSBC astutely abandoned the idea of moving its head office to London from Hong Kong, saying that "our great success depends upon the eastern people being

[40]School of Oriental African Studies Library, David McLean Papers, MS 380401/13 (vol. iii), McLean to Jackson, 29 April 1881.

[41]Suzuki (2012, pp. 86–111).

[42]Mackenzie (1954, p. 162).

[43]HSBC Group Archives, Chartered Mercantile Bank Archives, 1172, Chartered Mercantile Bank of India, London, and China, London; 15 July 1858, pp. 4–5.

[44]King (1987).

[45]School of Oriental and African Studies Library, MS 380401/13 The Private Letter Books of David McLean, vol. iv, David McLean to Thomas Jackson, 30 June 1882.

interested in the bank … [an] attempt to get [the] head office transferred to which in my opinion would not be for the good of the [concern]".[46] In Hong Kong, a silver standard area, the HSBC was able to receive large amounts of funds from depositors for its banking operations.

3 British Overseas Banks and London Clearing Banks

3.1 Relations Between London Offices, Branches and Corresponding Banks

Both the balance sheets of Bobs and the head office-branch accounts illustrate close relations between the BOBs' London offices and the Lcbs. The balance sheet of the CB London head office of December 31, 1864, is given in Table 2. The "City Bank Bill Account" of £2,038,634 in assets, which occupies more than the half of the total, is worthy of note. This amount would likely correspond to the "City Bank Acceptance" of £2,498,908 in liabilities. The main sources of funds for the CB's banking operations obviously lie in "Capital", "Deposits Notes", "Deposit Receipts", and "Current Deposit Accounts".

Similarly, Table 3 lists the balance sheets of the CMB's London head office and overseas branches as of 31 December 1858. The liability account "Drafts drawn on London Joint Stock Bank" (£1,016,038) is obviously large, over half the total. The table shows a number of bills accepted by both the London Joint Stock Bank (hereafter LJSB) and the CMB London head office, and paid in London. These relate to "Bills deposited at London Joint Stock Bank" (£684,763) in assets on the balance sheet, and ⑦ "Acceptance Account" (£1,067,963)—"Drafts drawn on London" (£1,067,960) of the CMB's money transfer accounts in Fig. 1. As shall be seen later, according to the correspondent contract, the CMB had to provide the LJSB with collateral when the CMB gained bill acceptance. It seems likely from Table 3 that the CMB's funding sources included both capital account (£400,000) and current account deposits (£432,194 + £14,707), as well as fixed deposits (£178,849 + £13,561) mainly at the branches. The branches' loan accounts of £121,808 were also noteworthy.

Figure 1 shows the relationship of the CMB's head office and branch accounts on 31 December 1858. The "Transfer Drafts receivable" (£634,711) and the "Transfer Drafts remitted to London" (£634,708) show bill transactions from the branches to the head office, as do the "Bills for Collection" (£1,480,950) at the head office and the "Bills remitted to London" (£1,480,948) at the branches. The "Bills for Collection" (£228,398) at the branches matches the "Bills remitted to Branches" (£86,526) at the head office plus the "Bills remitted to Branches" (£141,871) at

[46] School of Oriental & African Studies Library, MS 380401/13, The Private Letter Books of David McLean, vol. v, David McLean to J. Walter, 12 March 1886.

Table 2 Balance sheet of the Chartered Bank head office on 31 December 1864

Assets	
City Bank Current Account	104,818
Bank of England Current Account	1,580
City Bank Bill Account	2,038,634
Bills receivable	2,085
Unaccepted bills	13,853
Office furnitures	248
Cash	82
Stamps	338
Transfer stamps	256
Sundry debtors	42,097
Small & Co.	237
British & Californian Bank	197
Bombay Capital Account	200,000
Bombay Exchange Account	118,189
Bombay Rupee Account	347,624
Bombay Head Office Government Securities Account	12,514
Calcutta Capital Account	100,000
Calcutta Exchange Account	135,603
Calcutta Rupee Account	137,971
Calcutta Head Office Government Securities Account	25,731
Shanghai Capital Account	100,000
Shanghai Tael Account	6,400
Singapore Capital Account	100,000
Singapore Dollar Account	6,296
Singapore Bullion Account	15,701
Hong Kong Capital Account	50,000
Hong Kong Exchange Account	79,376
Hong Kong Dollar Account	1,331
Hong Kong Bullion Account	31,704
Rangoon Capital Account	50,000
Rangoon Exchange Account	60,547
Rangoon Rupee Account	23,168
Kurrachee Capital Account	40,000
Kurrachee Exchange Account	17,938
Kurrachee Rupee Account	3,675

(continued)

Table 2 (continued)

Batavia Capital Account	75,000
Batavia Exchange Account	14,419
Batavia Guilder Account	6,336
Kankow Capital Account	50,000
Kankow Exchange Account	3,202
Kankow Tael Account	746
Madras Rupee Account	55
Adjusting Account	25,030
(balance of rebate on bills not due)	
Total *Liabilities*	4,042,997
Capital	800,000
Reserved surplus fund	105,000
City Bank's acceptance	2,498,908
Bills payable	265,397
Bills received for collection	5,050
Deposit notes	34,250
Deposit receipts	151,314
Current deposit accounts	3,058
Margins on bills	9,189
Dependencies	1,771
Unclaimed dividend	93
Eleventh dividend	632
Sundry creditors	93
Carruthers Corunell	633
Bombay Ramthunder Account	2,080
Shanghai Exchange Account	47,740
Singapore Exchange Account	68,382
Commercial Bank of Basel	9
Profit and loss	49,391
Total	4,042,997

Notes
1. Sterling
2. There are differences between the total amount in the ledger and the aggregated one in this table due to omitting the values of shillings and pence
3. Excluding agencies
Source Guildhall Library, Chartered Bank Archives, MS 31519

Table 3 Balance sheet of the Chartered Mercantile Bank head office-branches on 31 December 1858

	Head Office	Branch Total	Bombay	Calcutta	Madras	Colombo	Kandy	Shingapore	Hongkong	Shanghai	Total
Assets											
Bills deposited at London Joint Stock Bank	6,84,763	0									6,84,763
Bills receivable	6,69,853	2,28,398	21,220	49,150	25,222	14,200		1,153	1,17,453		8,98,254
Bills discounted (local)	3,015	2,63,785	99,681	11,740	14,571	32,561	8,742	59,152	29,778	7,560	2,66,805
Bullion a/c	4,000	2,36,121	43,884	30,038	52,287			1,379	65,666	42,867	2,40,124
Insurance a/c	322	0									322
Indian government security	12,890	36,080	33,660	2,420							48,970
Past due bills	471	7,721	6,704		618	399					8,193
Cash	517	2,66,326	6,889	4,438	4,081	41,549	8,375	33,868	1,58,022	9,106	2,66,846
Cash at London Joint Stock Bank Indian a/c	2,255	0									2,255
Cash at London Joint Stock Bank General a/c	9,125	0									9,125
Penang cash a/c		78						78			78
Adjustinf a/c of profit		654	654								654

(continued)

Table 3 (continued)

Office furniture	859	3,824	1,043	775	256	504	121	446	573	106	4,686
Current a/c	139	9,201	5,403	2,897		776		18		107	9,343
Loan a/c		1,21,808		1,14,028		7,780					1,21,808
Interest on government security		486	486								486
Interest on loans		1,071		1,071							1,071
British bills purchased		6,000				6,000					6,000
Indian bills purchased		2,808				200		2,608			2,808
Stationary		270				270					270
Stamps	470	107				107					578
Sundry debtors	35	199				91		34	74		236
Bombay office suspense a/c		776							275	501	776
Mercantile Bank of India		1,66,365	1,62,856				2,323			1,186	1,66,366
Bank of Bombay		28,343	28,343								28,343
Bank of Bengal		32,909		32,909							32,909
Galle Agency		518				518					518

(continued)

Table 3 (continued)

Kandy Agency		322				322					322
Total Liabilities	13,88,721	14,14,199	4,10,829	2,49,468	97,037	1,05,283	19,562	98,741	3,71,844	61,435	2,802,923
Capital a/c	4,00,000	0									4,00,000
Bills payable	51,925	2,98,244	1,31,963	1,50,373	3,319	3,373		243	8,973		3,50,172
Chartered MercantileBank bills payable		78,113		11,646	19,286	23,984		6,806	16,391		78,115
Drafts drawn on London Joint Stock Bank	10,16,038	0									1,016,038
Transfer drafts on Chartered Mercantile Bank	96,653	0									96,653
Current a/c	14,707	4,32,194	2,15,091	47,020	7,491	41,347	6,825	32,264	80,829	1,327	4,46,904
Fixed deposit a/c	13,561	1,78,849	91,952	6,623	2,358	7,826	1,942	11,054	55,491	1,603	1,92,414
Premium & discount a/c		0									
Non govenment securities		2,207	2,044	163							2,207
Loans payable		85,500		81,000						4,500	85,500

(continued)

Table 3 (continued)

Notes in circulation		84,246				7,918	4,340		71,988		84,247
Suspense a/c		687				567	120				687
Sundry creditors	915	1,373				56		472	770	75	2,290
Treasury bill a/c		18,000						18,000			18,000
Profit adjusting a/c	9,391	5,188		1,084	205	467		757	2,663	12	14,582
Profit & loss a/c	15,109	0									15,109
Total	16,18,302	11,84,617	4,41,051	2,97,912	32,661	85,541	13,228	69,599	2,37,108	7,517	2,207

Notes
1. Sterling
2. There are differences between the total amount in the ledger and the aggregated one in this table due to omitting the values of shillings and pence
Source Chartered Mercantile Bank Archives, 2368 Statements of General Balance

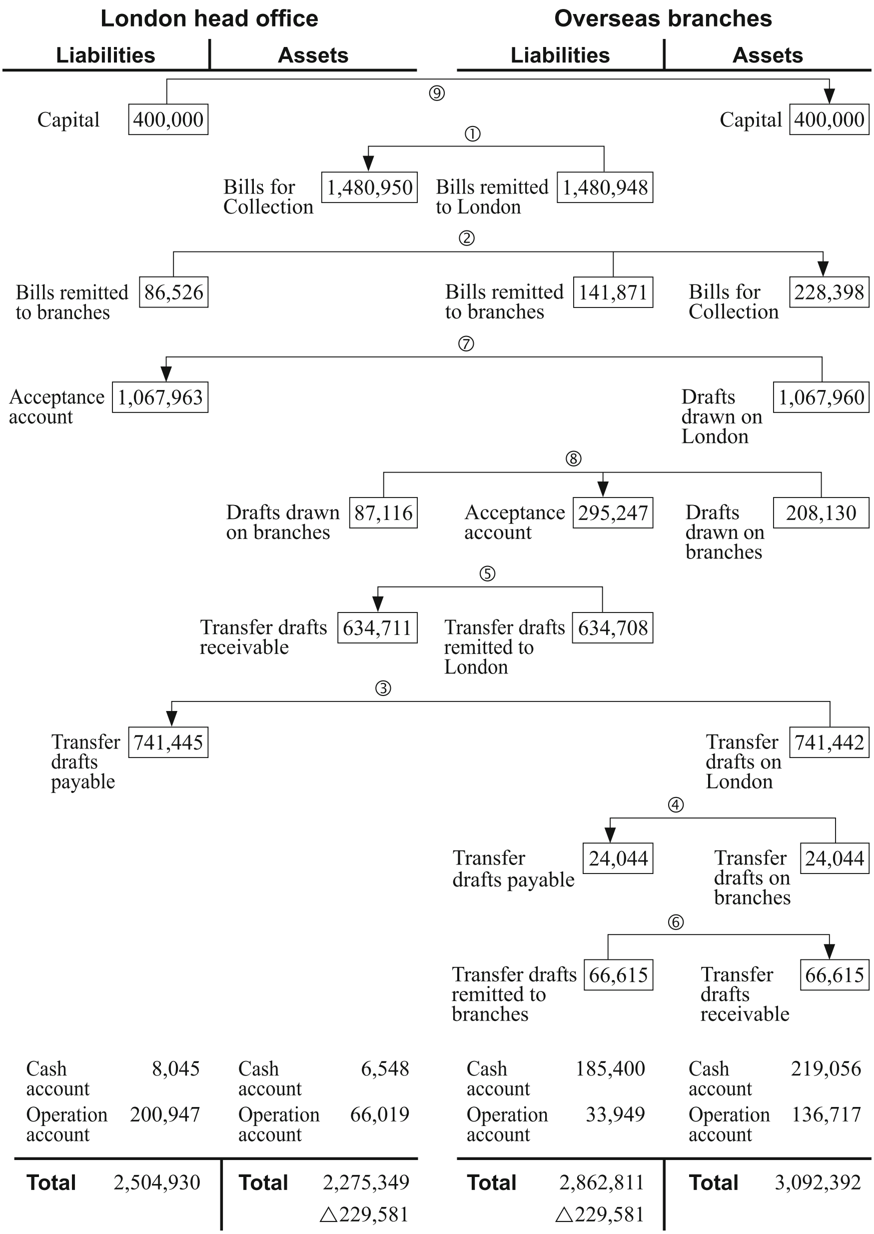

Fig. 1 Relations of the Chartered Mercantile Bank Accounts between head office and branches on 31 December 1858

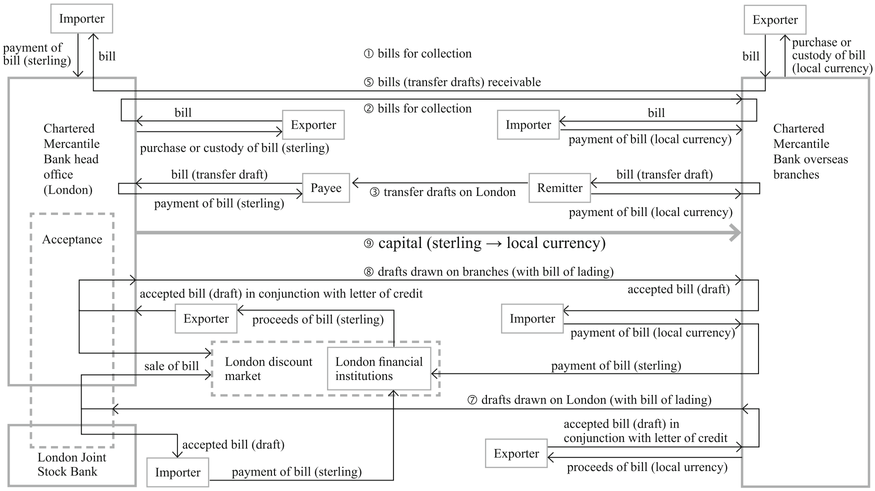

Fig. 2 Diagrams of transactions at the Chartered Mercantile Bank Accounts between head office and branches

the branches. Similarly, the "Transfer Drafts payable" (£741,445) at the head office match the "Transfer Drafts on London" (£741,442) at the branches; the "Acceptance Account" (£1,067,963) at the head office corresponds to the "Drafts drawn on London" (£1,067,960) at the branches, and the "Acceptance Account" (£295,247) at the branches matches the "Drafts drawn on Branches" (£87,116) at the head office plus the "Drafts drawn on Branches" (£208,130) at the branches.

Figures 1 and 2 delineate the CMB's transactions between the head office in London and the overseas branches. The following five major operations occurred. (1) Transference of Capital from the head office to the branches—⑨; (2) Buying exchanges (purchasing documentary bills and collecting them either in London or abroad) [Transfer Drafts receivable]—⑤ and ⑥; (3) Bills for Collection (sending bills for collection)—① and ②; (4) Selling exchanges (selling remittance drafts) [Transfer Drafts payable]—③ and ④; and (5) Acceptance of bills (overseas branches drew bank drafts on the London head office or the LJSB and vice versa) [Acceptance Account]—⑦ and ⑧. That banks in London accepted bills made it possible to negotiate them easily on the London discount market because of their definite payment.

3.2 Beginning of Acceptance Business

In the 1870s, when the London financial market went international, some of the Lcbs, which had suffered from the declining loan-to-deposit ratios, embarked upon new businesses such as the acceptance of foreign bills. With respect to the bill acceptance business, Donald Larnach, the President of the LJSB, mentioned at the general meeting held in July 1879 that “he hoped to see that portion of their [acceptance] business increase. They [the LJSB] were the London bankers of some of the first bankers in the world. They were drawn on from India, China, Australia, and America; but before giving their acceptances they took ‘right good care’ to be most amply secured”.[47] In the Parliamentary Committee, W.H. Crake, director of the London and Westminster Bank, testified that his bank’s acceptance business activity was fairly moderate, saying that “the London and Westminster Bank, like all other banks doing business in London, can hardly escape accepting to a certain extent, but the London and Westminster Bank avoids it to the utmost of its ability”.[48]

Yet, in 1886, the London and Westminster Bank came to change this negative attitude toward the acceptance business. Its special committee proposed the promotion of a foreign bill acceptance business. It recommended that “the acceptances of the Bank be increased by granting facilities in that direction to well established foreign and colonial banks [Bobs and foreign banks]. Hitherto in its desire not to interfere with those of its customers who transact that class of business the Bank has almost entirely refused its acceptances. But now that the course of business is much altered and as it has become evident that the better established foreign and colonial banks will not take their drawing accounts to merchants, but insist on having the acceptance of joint stock or private banks [the Lcbs] your Committee is of opinion that this time has come when the acceptance business of the Bank may be safely and profitably extended without fear of interfering with, or of offending any of its most valued customers”.[49] Commercial bills, having been accepted and certain to be paid by banks, were able to be discounted as bank bills at the most favorable interest rate on the London discount market.[50] Obviously, most of the Lcbs came to regard the bill acceptance business as “a more remunerative business than the ordinary banking business”.[51]

In particular, the Scottish banks penetrating into the London financial market in the 1860s and 1870s practiced this business on a large scale.[52] It is an established fact that one of the reasons the City of Glasgow Bank was forced to go bankrupt in 1878 was abuse of bill acceptances. Although a moderate amount of that business is not altogether bad for bank management, it was pointed out in 1878 that “when the acceptance grows into an amount equalling a considerable proportion of the deposits, a deposit bank is no longer in the absolutely safe position it ought to hold. When it

[47] HSBC Group Archives, London Joint Stock Bank Archives, General Meeting of 1879—84th Report.

[48] Report from the Select Committee on Bank Issue; together with the Proceedings of the Committee, Minutes of Evidence, & Appendix, B.P.P., 1875, ix, QQ. 7318 and 7366 (W. H. Crake).

[49] Gregory (1936, pp. 270–1).

[50] Jacobs (1910, pp. 3–4), Munn (1988, p. 13).

[51] Report from the Select Committee on Bank Issue; together with the Proceedings of the Committee, Minutes of Evidence, & Appendix, B.P.P., 1875, ix, Q. 7049 (John Smith).

[52] Report from the Select Committee on Bank Issue; together with the Proceedings of the Committee, Minutes of Evidence, & Appendix, B.P.P., 1875, ix, QQ. 6886 and 6888 (John Smith).

does so, it uses its credit twice over. … What is worse, as some of the most careful bankers in the City have long perceived, the circulation of its acceptances exposes the credit of a bank to a danger of a wholly different sort from the danger it runs by mere deposits".[53] The City of Glasgow Bank sold a large amount of accepted bills to the London discount market to raise necessary funds.[54] As these bills were being circulated widely in the City, it was confirmed that the Bobs such as the CB, the CMB, and the Agra Bank, and the Lcbs such as the Alliance Bank held large sums of them.[55]

3.3 Criticisms Against Acceptance Business

An issue of *The Statist* published immediately after its first volume paid serious attention to the problem of bank acceptances. It computed the totals of acceptance amounts classified by English, Irish, Scottish, overseas, and foreign banks, on the basis of published figures, and showed that some Lcbs including the Union Bank of London, the City Bank, the London and County Banking Company, and the LJSB[56] conducted large-scale acceptance businesses. In particular, it concentrated on the massive scale of bank acceptances taken up by Bobs and foreign banks.

As given in Table 4, *The Statist* gave the ratios of bill acceptances to deposits, classifying the figures from balance sheets published in *Bankers' Magazine* into ratios of (1) English and Irish banks, (2) Scottish banks, and (3) overseas and foreign banks. Although the English and Irish banks' ratio was 6% and the Scottish banks' was 9.5%, the average of the overseas and foreign banks was 40%, a very high ratio. The overseas and foreign banks had to undertake a large number of bill acceptances because they always regarded their money transfer business including bill acceptances as a principal activity. In particular, the four major Bobs—the OBC, the CB, the CMB, and the HSBC—that specialized as eastern exchange banks and carried out a great many transactions with Asian countries indicated an extremely high ratio of 90.3%. The bill usances in Asian trade were relatively long, usually six months.[57]

The following year, *The Statist* again raised the issue of bank acceptance, questioning whether deposit banks such as the Lcbs should be involved in this sort of business. As mentioned earlier, since the bill transaction business in England had so far been conducted exclusively by merchants,[58] it is reasonable to think that merchant banks would have regarded bill acceptances by the Lcbs and Bobs as an invasion of

[53] *The Times*, 5 October 1878.

[54] *The Times*, 19 December 1878.

[55] *The Times*, 17 October 1878, 15 January and 21 March 1879.

[56] This Bank undisclosed its acceptance amount.

[57] *The Statist*, 9 November 1878, pp. 205–7. *The Statist* calculated similar figures next year and confirmed a same tendency (20 September 1879, pp. 71–2).

[58] Report from the Select Committee on Bank Issue; together with the Proceedings of the Committee, Minutes of Evidence, & Appendix, B.P.P., 1875, ix, Q. 7035 (John Smith).

Table 4 Bill acceptances made by financial institutions in London at the end of June 1878

Name of bank	Capital (£000)	Reserves (£000)	Deposits (£000)	Acceptances (£000)	Acceptances/Deposits (%)
1. English and Irish Banks					
Adelphi Bank Liverpool	130	20	301		
Alliance Bank	800	175	2,272	774	34
Bank of Whitehaven	99	90	637	15	2
Birmingham Banking Co.	160	160	1,168		
Birmingham Joint-Stock	295	401	1,687		
Birmingham Dudley District	228	117	1,590		
Bradford Banking	408	270	2,357		
Bradford Commercial	245	166	756		
Bradford Old Bank	425	103	1,787		
Bunks & Oxon Union	80	21	727		
Capital and Counties	300	160	3,465	11	0.3
Carlisle & Cumberland	75	100	650		
Central Bank of London	300	18	1,148		
City	600	190	3,922	3,230	83
Consolidated	800	152	2,967	80	3
County of Stafford	60	43	426		
Cumberland Union	225	85	1,780		
Devon & Cornwall	136	106	1,926		
Exchange & Discount	100	52	168		
Hibernian	500	240	2,209		
Hull Banking	118	103	908		
Imperial	675	95	2,435	290	13
Lancashire & Yorkshire	298	68	854		
Leeds & County	230	50	1,068		
Leicestershire	300	93	1,501		

(continued)

Table 4 (continued)

Name of bank	Capital (£000)	Reserves (£000)	Deposits (£000)	Acceptances (£000)	Acceptances/Deposits (%)
Liverpool Union	600	230	2,242	282	13
Lloyd's Banking	400	220	5,525		
London & County	1,500	750	23,611	1,969	8
London Joint Stock	1,200	569			
London & Provincial	200	103	1,886		
London & South Western	200	30	1,576	2	0.1
London & Westminster	2,000	855	26,763	845	3
London & Yorkshire	178		278	123	44
Manchester & County	660	410	4,543		
Manchester Joint Stock	102	49	319		
Manchester & Liverpool District	905	675	11,267	47	0.4
Merchant Banking	375	100	2,192	Included in deposits	
Metropolitan	192		318	28	9
Munster	350	150	2,831		
National	1,500	130	8,361	7	0.1
National of Liverpool	450	95	743	68	9
National Provincial	1,688	900	27,259	661	2
North Eastern	256	80	463		
Northern Counties	22	2	31		
North & South Wales	500	250	4,943	89	2
North Western	405	110	900	306	34
Nottingham Joint Stock	100	35	541		
Parr's Banking	393	193	2,607	30	1
Royal Bank of Ireland	300	200	1,821		
Sheffield Banking	293	111	1,513		
Sheffield & Hallamshire	188	62	709		

(continued)

Table 4 (continued)

Name of bank	Capital (£000)	Reserves (£000)	Deposits (£000)	Acceptances (£000)	Acceptances/Deposits (%)
Sheffield & Rotherham	161	81	1,579		
Sheffield Union	180	54	458		
Southport & West Lancaster	120		219		
Staffordshire Joint Stock	175	70	671		
Stamford, Spalding & Boston	250	150	1,481		
Stourbridge & Kidder Minster	100	110	1,250		
Swansea Bank	201	35	181		
Union of London	1,395	421	12,544	3,389	27
Union of Manchester	440	160	1,567	65	4
West of England & South Wales District	750	157	4,394		
West London Commercial	23		126		
Wilts & Dorset	300	259	3,550		
Wolverhampton & Staffs	100	52	781		
Worcester City & County	250	100	1,359		
Yorkshire Banking	250	112	2,449		
Total and (average)	27,239	11,148	204,560	12,311	(6)
2. Scottish Banks					
Aberdeen Town & County	252	126	1,804		
British Linen	1,000	411	7,456	562	8
Bank of Scotland	1,250	750	10,508	2,117	20
City of Glasgow	1,000	450	8,102	1,488	18
Clydesdale Banking	1,000	500	6,625	473	7
Commercial	1,000	421	9,197	446	5
National of Scotland	1,000	500	11,058	1,503	14
North of Scotland	394	202	2,593		

(continued)

Table 4 (continued)

Name of bank	Capital (£000)	Reserves (£000)	Deposits (£000)	Acceptances (£000)	Acceptances/Deposits (%)
Royal Bank of Scotland	2,000	500	10,549	429	4
Union Bank of Scotland	1,000	315	8,958	220	2
Total and (average)	9,896	4,175	76,850	7,238	(9.4)
3. British Overseas and Foreign Banks					
Agra	995	150	3,324	1,270	38
Anglo-Austrian	1,800	147	707	1,164	165
Anglo-Egyptian	1,600		704	1	
Anglo-Foreign	600		3,591	366	10
Anglo-Californian	300	34			
Australian Joint Stock	500	125	2,573	505	20
Bank of Australasia	1,200	256	5,176	1,228	24
Bank of British Colombia	346	35			
Bank of British N. America	1,000	231	1,380	1,303	94
Bank of Egypt	250	45	207	27	13
Bank of New South Wales	1,000	440	8,710	2,008	23
Bank of New Zealand	725	300	6,800	2,139	31
Bank of South Australia	609	200	1,711	186	11
Bank of Victoria	500	230	3,470	549	16
Chartered of India, Australia, & China	800	110	2,384	3,915	164
Chartered Mercantile of India, London, & China	750	152	4,162	4,094	91
Colonial Bank	600	88	2,858	Included in deposits	
Colonial Bank of N. Zealand	356	16	837	314	41
Commercial of Alexandria	240		294	8	3
Delhi & London	338		477	348	73
Deutsche Bank	2,250	283	2,075	1,941	94

(continued)

Table 4 (continued)

Name of bank	Capital (£000)	Reserves (£000)	Deposits (£000)	Acceptances (£000)	Acceptances/Deposits (%)
English, Scottish, & Australian Chartered	720	100	2,219	217	10
German Bank of London	600	36	1,074	Included in deposits	
Hongkong & Shanghai	1,000	217	3,933	5,675	144
Imperial Ottoman	5,000		1,740	63	3.6
International of Hamburg & London	585	50	1,855	Included in deposits	
Ionian	205	60	287	183	64
London Charted Bank of Australia	1,000	120	1,972	376	19
London & Hanseatic	233	27	1,301	Included in deposits	
London & River Plate	600	111	2,684	525	20
London & San Francisco	600	90	1,214	Included in deposits	
Mercantile Bank of Sydney	250	75	701	Included in deposits	
National Bank of India	465	15	1,597	840	53
National Bank of Australasia	783	277	3,210	918	29
National Bank of New Zealand	350		1,482	293	20
Oriental	1,500	325	12,210	6,811	56
Standard of British South Africa	850	170	3,044	1,267	42
Union Bank of Australia	1,467	677	6,733	1,024	15
Total and (average)	32,967	5,192	98,696	39,558	(40)

Notes
1. Apparent errors of numerical values were corrected
2. The names of some banks were abbreviated

Source The Statist, 9 November 1878, pp. 205–7 their business area, and would have had ill feelings toward such activities. Although the journal admitted the peculiar position of the Bobs being heavily involved in the exchange business, it criticized the Lcbs for abusing bill acceptances from the viewpoint of sound bank management by saying that "what we do object to is the practice of joint stock banks [the Lcbs] which have large deposits, or which hold themselves out as deposit banks, engaging in this business of accepting to a considerable extent, say for an amount exceeding one-tenth of their deposits, which appears to be the limit of the practice in the case of some of the best banks. A practice of this sort, when engaged in largely, is obviously unsuitable and dangerous to joint stock banks. They cannot have the knowledge of a particular trade or the course of business in it which a merchant banker possesses".[59]

Further, *The Statist* paid serious heed to close trade relations between the Lcbs and Bobs. This was the Lcbs' practice of accepting, in London, bills drawn by Bobs. On one hand, bill acceptances made by the Lcbs became essential for Bobs when the Bobs purchased foreign trade bills and drew drafts from abroad, making them dependent on the London discount market. On the other hand, accepting these bills was a good business opportunity for the Lcbs because there was "a commission against 'cover'"[60] and constant public demand for them among a variety of London financial institutions that always regarded them as favorable investment objects. Hence, the Lcbs were very willing to take up this sort of business.

As has been seen before, in an early stage, the Lcbs had a negative opinion of bill acceptances, but in the middle of the 1890s, the board of directors at the City Bank came to regard this business as "one of the safest and most profitable".[61] It was reasonable to say that "accepting always involves a certain amount of risk, but if conducted with prudence is profitable and reasonably safe".[62] Bobs invariably came to regard the business of foreign bill transactions as their core, recognizing appropriately that "the distinguished principle of their [Bobs'] business is to deal in foreign bills of exchange, the other branches of banking being considered merely as accessory".[63]

3.4 Business Relationship Between the London Clearing Banks and British Overseas Banks

It was indispensable for Bobs to establish close business relationships with the Lcbs, since Bobs depended upon the London discount market. The following are the actual business transactions in the later part of the nineteenth century, between the Lcbs and the Bobs in accepting foreign bills of exchange and drafts.

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[59] *The Statist*, 27 September 1879, p. 96.

[60] See Footnote 59.

[61] *The Times*, 18 July 1894.

[62] *The Times*, 22 December 1890.

[63] Andree (no date, p. 87).

Chartered Mercantile Bank—London Joint Stock Bank Business Relations

As shown in its official history,[64] the CMB attached the utmost importance on its business relationship with the LJSB in doing its banking business. The following statement goes straight to the heart of this matter: "One of the first considerations in the business of an exchange bank [Bob] is the establishment of the standing and credit of its drafts in the market: the court [the CMB's Court] have every reason to believe that its bills on the London Joint Stock Bank enjoy the very best reputation, and they expect that this position will not be impaired or prejudiced by the injudicious proceedings of its own agents".[65]

The volume of transactions between Bob branches and the Lcbs in the London discount market increased. As mentioned earlier, it was indispensable for Bobs to open accounts at the Lcbs, their London correspondents, for making settlements in London. For example, the payment of drafts in London drawn by the overseas branches of the CMB was usually made at the head office or branches of the LJSB in London. Similarly, the export bills that the overseas branches of the CMB purchased were to be accepted or endorsed by the LJSB. Consequently, these bills became bank bills or papers, which were more credible and able to be negotiated at a much lower rate of interest on the London discount market.

The CMB started a bank business in Rampart Row, Bombay, on 3 January 1854. The granting of a charter would not occur until five years later. Immediately, on 23 March in the same year, the LJSB permitted the CMB to open a bank account and agreed to act as its correspondent in London.[66] This contract stipulated "the CMB, or its appointed agent, shall be allowed a drawing credit on this institution to an extent not exceeding thirty thousand pounds sterling; drafts drawn against such credit to be covered before maturity by cash or bills of exchange. This credit to remain in force for twelve months from the date hereof, subject however to the application of the directors of the Mercantile Bank [CMB] for a renewal, should a continuation of it be required".[67] These conditions can be summarized as follows: the head office and branches of the CMB were able to draw up to £30 million in bills for the LJSB to accept. To secure these acceptances, the CMB had to deposit either cash or bills of exchange into the LJSB. The CMB was able to draw bills for acceptance by the LJSB, and import merchants in Asia purchased them as an instrument of bank remittance to London.

A detailed explanation on the CMB's business practice can also be made based on a contract concluded in 1893[68]: The overseas branches of the CMB could draw drafts on the LJSB. These drafts from Asia could be presented to the LJSB for acceptance or payment. They were to be covered and secured by deposits of securities approved

[64] Muirhead (1996, p. 180).

[65] HSBC Group Archives, Chartered Mercantile Bank Archives, 1173, Chartered Mercantile Bank of India, London, and China, London; 15th July 1858, p. 12.

[66] HSBC Group Archives, London Joint Stock Bank Archives, Board Minutes, B, 23 March 1854.

[67] HSBC Group Archives, London Joint Stock Bank Archives, Board Minutes, B, 30 March 1854.

[68] HSBC Group Archives, Chartered Mercantile Bank Archives, 1228, The Agreement between The Mercantile Bank & London Joint Stock Bank, 1893.

by the LJSB. The securities should consist partly of bills or drafts purchased by the branches or agents of the CMB. In some instances, they were accompanied or secured by shipping or other documents. As has been given in Table 3, the amounts of the secured bills or drafts were entered as "Bills deposited at London Joint Stock Bank" in the CMB assets. Drafts accepted by the LJSB were entered as "Drafts drawn on London Joint Stock Bank" in liabilities.[69]

In 1879, the Bobs reached an agreement to the effect that the usance of Asian bills should be shortened from six to four months. The CMB came to select the accepting bank depending on the bills' usance. When its branch asked the head office to accept a four-month usance draft for £6000, the head office replied that all bills with usance periods over three months should be drawn on the LJSB, not on the CMB's head office.[70] The bill acceptance commissions payable to the LJSB in 1882 were (1) 1/4% for six-month sight bills, (2) 3/16% for four-month bills, and (3) 1/8% for three-month bills.[71]

The LJSB did not fix the extent and period of bill acceptance given to the CMB. The initial terms of £30,000 for 12 months came to be £50,000 for 12 months in 1855, then £140,000 for six months in 1859, and £200,000 for 12 months in 1862.[72] In these cases, the CMB faithfully provided the securities to the LJSB, but it seems likely that the LJSB permitted the drawing of bills with no security on "open credit". In fact, the LJSB accepted bills for £100,000 in April 1869, £150,000 in February 1870, and £100,000 in January 1871 for six months on open credit.[73]

Open credit allowed correspondents abroad to draw bills on credit without security. This business practice was notoriously abused in the Anglo-American trade of the 1830s. It was said that open credit could be attributed as one of the causes of over-speculation in the 1837 crisis.[74] Even in 1875, the harmful effects of open credit were apparent. A letter addressed to the editor of *The Times*, which requested an explanation of the difference between "open credits" and accommodation bills, questioned "the acceptances of so many leading houses [merchant banks] are given to the draughts [drafts] of correspondents abroad, upon the drawers undertaking to cover the said draughts at maturity?".[75]

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[69]HSBC Group Archives, Chartered Mercantile Bank Archives, 2372, General Balance—Precise Financial Position of 3 February 1893.

[70]HSBC Group Archives, Chartered Mercantile Bank Archives, 2400, Drawing on London Office, HOGA of 7 March 1890; 2183, Drafts—Usance, no date.

[71]HSBC Group Archives, Chartered Mercantile Bank Archives, 2400, Instructions, London Joint Stock Bank, HOGA of 5 May 1882.

[72]HSBC Group Archives, London Joint Stock Bank Archives, Board Minutes, B, 19 April 1855; C, 6 October 1859; C, 6 November 1862.

[73]HSBC Group Archives, London Joint Stock Bank Archives, Board Minutes, D, 1 April 1869, 17 February 1870 & 12 January 1871.

[74]'Enquiry into the Circumstances that have occasioned the Present Embarrassments in the Trade between Great Britain and the United States of America', *The Edinburgh Review*, LXV, July 1837, pp. 229–30.

[75]*The Times*, 23 July 1875.

In these circumstances, the Lcbs maintained some caution in giving Bobs unsecured credits in accepting bills. In fact, in 1871, McLean told W.H. Vacher, HSBC's special agent, that it required much trouble to obtain additional unsecured credits for two months from the London and County Bank.[76] Furthermore, in 1879, McLean realized that there were many difficulties ahead when he acknowledged that the Lcbs, except for the London and County Bank, could no longer permit Bobs to give unsecured credits.[77] In 1884, McLean learned that the unsecured credit extent of the HSBC given by the London and County Bank was £200,000 for two months and was very disappointed to hear that "they are not likely to give us anything further uncovered".[78]

Chartered Bank—City Bank Business Relations

The City Bank acted as the London agent (correspondent) of the CB. In the third quarter of the nineteenth century, however, most of the Lcbs, failing to expand loans to the domestic industry and finding it difficult to manage their funds favorably, came to be keen to take up foreign bill acceptances as a new business area.[79] The City Bank's "Arrangement Book" recorded the details of its correspondent contracts and transactions in bill acceptances between the City Bank and the CB, which are noteworthy.[80]

The terms and conditions that the City Bank imposed on the CB were indefinite and followed the conditions of the contemporary money market. The contract conditions when the CB opened an account for bill acceptances at the City Bank on 16 March 1860 were as follows: (1) a 1/4% fixed commission on a bill acceptance; (2) uncovered drawing credits drawn by the CB's overseas branches and agents on the City Bank should be limited to £100,000, but security for the uncovered credits should be offered within three months; and (3) bill acceptances should not fall into the category of cash lendings. The commission was lowered to 3/16% in January 1865, and in June 1866, the limitation was raised to £200,000.

On 31 May 1870, these terms were substantially revised: the extent of uncovered credits was reduced to £150,000, and the usance of bills drawn was limited to six months; the extent of undiscovered credits was valid only until the end of June 1871, after which the credits could be continued with six months' notice. The commission stayed at 3/16%, but the CB had to pay off bills before the date of maturity. According to the contract, the CB had to deposit the stipulated money one month earlier. Interest 3/4% lower than the contemporary bank rate should be paid on the deposits.

[76] School of Oriental African Studies Library, David McLean Papers, MS 380401/12, vol. iv, McLean to Vacher, 1 February 1871.

[77] School of Oriental African Studies Library, David McLean Papers, MS 380401/13, vol. ii, McLean to Thomas Jackson, 14 February 1879.

[78] School of Oriental African Studies Library, David McLean Papers, vol. iv, McLean to Jackson, 15 February 1884.

[79] Suzuki (1994, p. 31).

[80] HSBC Group Archives, City Bank Archives, 293/1, Arrangements Book, Chartered Bank of India Australia & China; CLC/B/207/CH03/01/08/007, Negotiations with the City Bank, 1857.

After that, the limitation of uncovered credits doubled to £300,000 temporarily from 30 January to 30 August 1872. Even after that, uncovered credit for £150,000 continued to be given to the CB as an "extra", meaning that the extent of bill acceptances permitted to the CB should ordinarily be £150,000 with another £150,000 as extra credit.

Endorsement of Bills and Foreign Domicile Bills

As an established practice, the CMB would endorse bills that were purchased in overseas branches and sent to London.[81] In order to provide them with sufficient liquidity in the London discount market, the bills had to become bank-endorsed bills through the additional endorsement written by the CMB's head office or the LJSB.[82]

Foreign domicile bills were defined as bills drawn or accepted by a person abroad. They were not negotiable on the London discount market.[83] Similarly, bills accepted by foreign banks with no London office could not be circulated in London.[84] However, foreign domicile bills endorsed by banks in London would probably be saleable in the London discount market.[85]

There was an interest clause bill, a variant of foreign domicile bills, which was drawn on the condition that the interest inscribed on the face in the period from the drawing or purchasing date to the date of payment was paid, in addition to the amount of a bill. This bill was usually used in transactions between Europe and Asia or Australia, but was seldom negotiated in the London discount market, even though they were sterling-denominated bills. An advertisement for Grindlay & Co. (later the National & Grindlays Bank, now a part of the ANZ Bank) to purchase interest bills was published in *The Times*.[86]

Profitability of Bill Transactions

In order to cover the sale of telegraphic transfers, Bobs had to purchase export documentary bills in Asia payable three or four months later after sight and simultaneously to send them to London for collection.[87] The profitability of transactions done by telegraphic transfer at the HSBC can be calculated from McLean's letter addressed to Thomas Jackson at the Hong Kong head office in 1885.[88] On the condition that the HSBC's London office would borrow money for £100 from a financial institution in London, the HSBC's head office in Hong Kong would sell telegraphic transfer paying in London on the basis of the borrowed money. If the telegraphic transfer rate

[81] HSBC Group Archives, Chartered Mercantile Bank Archives, 2400, Instructions, Endorsement on Bills, HOGA of 4 December 1891.

[82] Gillett Brothers Discount Co. Ltd. (1952, p. 43).

[83] Gillett Brothers Discount Co. Ltd. (1952, p. 20).

[84] Gillett Brothers Discount Co. Ltd. (1952, p. 20).

[85] Gillett Brothers Discount Co. Ltd. (1952, p. 20).

[86] *The Times*, 10 May 1884 and others.

[87] *The North China Herald*, 2 June 1882, p. 600.

[88] School of Oriental & African Studies Library, David McLean Papers, MS 380401/13 (vol. v), McLean to Jackson, 14 January 1885.

for one Hong Kong Dollar [hereafter H.K.$] was 3s. 6 3/4d. (£1 = H.K.$5.6140), the HSBC head office would receive H.K.$561.40 for £100 telegraphic transfer paying in London, which the HSBC head office would then sell to customers. In order to cover the sale of the telegraphic transfer, the HSBC head office would purchase export documentary bills on London payable four months later after sight in Hong Kong using these proceeds (H.K.$561.40). If the rate of documentary bills payable four month later after purchase was higher than the telegraphic transfer rate by one penny (one H.K.$ = 3s. 7 3/4d.; £1 = H.K.$5.4857), the head office would purchase a bill for £102 6s. 9d. (£102.3382) using the aforementioned H.D.$561.40. After four months, when the bills were sent to London and collected, the HSBC London office would receive £102 6s. 9d. (£102.3382) as proceeds.

However, as the HSBC had initially borrowed the money for the £100, it needed to pay interest until the documentary bill was collected and to pay off the principal (£100). The timing for the bill sent from Hong Kong and arriving in London for collection was as follows: posting 37 days, then four months after sight (123 days), with a grace period of three days, totaling 163 days. If the annual interest rate in London was fixed at 3 1/3%, the interest on £100 for 163 days would be £1 11s. 3d. (£1.5625). There was also a stamp duty of 1s. In addition, commissions charged for drawing the bill and the charge for the telegraphic transfer should be taken into consideration, but McLean's letter did not include them in this transaction. In the end, if the principal (£100) and charges including the interest (£1.5625) and a stamp duty (£0.05) were deducted from the proceeds of the bill on London payable four months later after sight (£102.3382), the HSBC's profit would be £0.725 (1.623% per annum). In short, these transactions made a profit exploiting the difference in exchange rates between the sale of telegraphic transfer and the purchase of export bills payable four months later after sight based on a low-rate fund borrowed in London. A Japanese banker admitted that although these transactions did not make an enormous profit, they were good for the financial institutions.[89] In fact, these differences narrowed after 1885.[90] It is obvious that the Bobs like the HSBC could not obtain high profits from this sort of transactions.

For Bobs, however, there appeared a more exorbitant financial product, interest clause bills. Otohiko Majima, who was dispatched from Mitsui Bank to inspect the London financial market at the beginning of the twentieth century, showed serious enthusiasm for interest clause bills by saying that "as the average rate of interest in London was between 3 and 4%, it is very advantageous for financial institutions by depending upon this cheap fund to purchase oriental bills on India, China and Japan [interest clause bills], which were able to yield an approximately 6% return, a higher-yield investment".[91] In comparison with usual documentary bills, these interest clause bills, mainly drawn on Asia and based on sterling, were extremely advantageous for the financial institutions in London where the rate of interest was by far the lowest in the world.

[89] Okada (1930, p. 101).

[90] Schneider et al. (1992, pp. 100 and 107); *The Economist*, 1885.

[91] Ishikawa (ed.) [Otohiko Majima] (1907, p. 67).

4 British Overseas Banks and Discount Houses

4.1 London Discount Market

When there was no open discount market for circulating bills, the financial institutions that purchased bills had to hold them until maturity. This locked up their funds for these bills, making it inconvenient to manage cash flow smoothly. Hence, many London financial institutions had to depend on the London discount market for selling bills. The discount market played a significant role as "a pool, as well as the conduit-pipes by which it was tapped and fed" by mediating between financial institutions short of cash and those abundant in cash. This market may well be regarded as the nucleus of the British financial system of the nineteenth century.[92] This is why the discount market's workings were admired as "an ideal solution of the liquidity problem for banks in the City of London".[93]

The London discount market was an open market where money intended to be used to carry out transactions flowed in.[94] This market consisted of a highly specialized financial intermediary such as a bill-broker and a discount house, and was very sensitive to the supply and demand of money. On one hand, it was truly said that "the function of a bill-broker lay in maintaining the supply and demand balance as much as possible".[95] The discount market, as a buffer between the Bank of England and London's financial institutions, played an important part in absorbing wild and considerable fluctuations of credit.[96] On the other hand, it was indispensable for Bobs, which conducted business along the London Axis and relied on the Lcbs' and merchant banks' bill acceptances. This mechanism enhanced the credibility of Bobs' drawn bills and secured the circulation of their bills on the market. It seems quite right that Benjamin Strong, the First Chairman of the Federal Reserve Bank, paid special attention to the development of the discount market when he aimed at establishing New York as an international financial center during the First World War.[97]

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[92] King (1936, reprinted in 1972, p. xiii).

[93] Guildhall Library, MS 24701, Gillett Brothers & Co. Archives, Lecture given to the Central Banking Course at the Bank of England, 21 April 1959, by Ronald B. Gillett.

[94] Evans (1852, p. 5).

[95] Jaffé (1904, p.78).

[96] pp. 167–8.

[97] Federal Reserve Bank of New York Archives, Benjamin Strong Papers, 1000.2, Strong Diary of European Trip, 13 March 1916. He called on Charles Addis and H.D.C. Jones, HSBC, and heard that "Sir Charles is quite keen about the development of our [New York] bill market which he talks is necessary and should be promoted. He believes that New York must carry some part of the load for financing the World's commerce and particularly them. Says it would be of great value to them to have their endorsements recognized by the Federal Bank of New York".

4.2 Bill Transactions of Discount Houses

Bill-brokers and discount houses were financial institutions specializing in bill transactions. Walter Bagehot's classic book *Lombard Street* contains a good description of bill-brokers' discriminating power with respect to bills and their "equalizing" functions, through which they were able to adjust and relocate funds all over the country.[98]

From the outset of the nineteenth century until around the collapse of Overend Gurney and Co. in 1866, domestic bill transactions were the main driver of the London discount market. Later, however, as the result of foreign banks' encroachment, the London financial market became more internationalized. In addition, the supply of inland bills dropped rapidly because of large-scale amalgamation of domestic banks and bank loans changing discounting of bills into overdrafts.[99] Consequently, the London discount market came to handle transactions of many foreign bills. Overseas trading houses, merchant banks, and the London offices of Bobs and foreign banks supplied an enormous number of trade bills. The discount houses in London began to deal with export documentary bills issued on shipments of export goods and bills on London sent from all over the world to Britain. In this way, the London discount market truly established itself as the world financial center, maintaining contact with different parts of the world.[100]

Papers entitled "Copy text of talk on the history and practice of discount banking", prepared by the National Discount Co. for a lecture presentation in the 1960s, explained the internationalization of the London discount market. The documents emphasize that discount houses [bill-brokers] came to pay serious heed to bills issued in international trade, stating that "bill-brokers turned their attention to bills financing foreign trade [from inland bill transactions]. The 'bill on London' became the usual medium for the finance of international trade. Bill-brokers could buy bills from the accepting houses [merchant banks] which handled international trade, and sold them to the newly emerging branch banks [the Lcbs] as useful outlets for their liquid funds. It was at this time that the tradition started that a bill should have 'smell of the sea'".[101]

[98]Bagehot (1978, p. 53); Thomas Richardson's evidence at the Bullion Committee (Minutes taken before the Select Committee on the High Price of Gold Bullion, B.P.P., 1810, iii, p. 124). However, now, in terms of the London discount market implied in the nineteenth century, there is no longer such a market. On 22 December 1998, the last discount house returned its license to the Bank of England. Sir Roger Gibbs, a former Chairman of the London Discount Market Association, said "it was the emergence of screen-based trading which finally killed off the tradition" (*The Financial Times*, 23 December 1998).

[99]Nishimura (1971, pp. 65–71); Fletcher (1976, pp. 27–9); Sayers (1978, p. 35).

[100]King (1936, reprinted in 1972, pp. 281–2).

[101]Guildhall Library, MS 18213, National Discount Co. Archives, Copy Text of a Talk on the History & Practice of Discount Banking.

4.3 Gillett Brothers & Co. and Foreign Bills

When investigating financial products such as bills, it is particularly difficult to trace the details of individual bill transactions because there were too many transactions to count and they were usually destroyed after payment. Here, we elucidate the business connections of Gillett Brothers & Co. [hereafter Gillett Brothers] with other financial institutions based on its business record "Tabulation relating to the Firm's Business". This shows Gillett Brothers & Co.'s monthly purchase of bills from 1892 to 1917 by supplier. Table 5 sets out the yearly accumulated and monthly average amounts of main suppliers to the firm in 1896 by financial institution. Gillett Brothers purchased or discounted bills supplied from almost every financial institution in London including the Lcbs, merchant banks, Bobs, and foreign banks. In particular, as given in Table 5, there are large monthly average amounts of transactions for between £80,000 and £120,000 with reputable merchant banks such as Baring Brothers & Co., Brown Shipley & Co., and Kleinwort Sons & Co., the Lcbs such as Parr's Alliance Bank and the Union Bank of London, country banks such as the Bank of Scotland and the Manchester and Liverpool District Bank, and foreign banks such as the Deutsche Bank.

In the commissioned history of Gillett Brothers & Co., a distinguished financial historian R.S. Sayers analyzed the firm's activities based on the "London List" of 1880, derived from company ledgers. Out of the 832 bills for nearly £7 million in total that Gillett Brothers & Co. discounted, it is clear that 111 of those, two-thirds of the total amount, were accepted by London banks including merchant banks and Bobs. There were also a number of bills on London accepted by banks resident in London—fine bank bills—and few foreign domicile bills. Eminent merchant banks played a significant role in accepting bills in international trade. This tendency was even more conspicuous in the list of 1905.[102]

Gillett Brothers attached special importance to discounting import bills from the East Indies. International trade between Britain and the East Indies expanded rapidly. Accordingly, the drawing of these bills doubled, partly because of the "cotton famine" in the 1860s and partly because of the opening of the Suez Canal in 1869. Gillett Brothers & Co. took in these Indian bills through Bobs and Page & Gwyther Co., an Indian bill and discount broker.[103] At that time, East Indian import bills had to bear the names of two banks, both the bank of an exporter in the East Indies and the Bobs through which the bills were sent to London. Following the amalgamation of country banks with London banks, resulting in the channels of country bills to bill-brokers being cut off, Gillett Brothers shifted its major business focus from country bills to East Indian import bills. With this in mind, Sayers wrote that "by 1914 Gilletts thought of the Indian bank bills as the staple of their trade and were so easily getting as many as they could hold that they became altogether more selective".[104]

[102]Sayers (1968, pp. 44–6). Unfortunately, the "London List" have not survived at its archives.

[103]*The Times*, 31 March 1884.

[104]Sayers (1968, pp. 47–8).

Table 5 Main customers of Gillett Brothers & Co. in 1896

Banks	Annual total amounts	Monthly average amounts
1. London Clearing Banks		
Capital & Counties Bank	160,102	13,341.83
City Bank	340,109	28,342.42
Glyn Mills	70,658	5,888.17
Lloyds Bank	136,419	11,368.25
London & Counties Bank	339,067	28,255.58
London Joint Stock Bank	291,981	24,331.75
London & Westminster Bank	203,687	16,973.92
Martin Bank	119,150	9,929.17
National Provincial Bank	55,565	4,630.42
Parr's Bank & Alliance Bank	981,037	81,753.08
Union Bank of London	789,319	65,776.58
2. Country Banks		
Bank of Liverpool	208,982	17,415.17
Bank of Scotland	298,779	24,898.25
British Linen Co.	70,076	5,839.67
Clydesdale Bank	92,699	7,724.92
Commercial Bank of Scotland	97,222	8,101.83
Manchester & Liverpool District Bank	174,486	14,540.50
North & South Wales Bank	51,886	4,323.83
National Bank of Scotland	161,016	13,418.00
Royal Bank of Scotland	69,848	5,820.67
Union Bank of Scotland	47,612	3,967.67
3. Merchant Banks		
Baring Brothers	1,057,228	88,102.33
Blyth Green & Co.	194,227	16,185.58
Brandt's Sons	227,996	18,999.67
Brown Shipley	1,082,612	90,217.67
James Finlay & Co.	95,533	7,961.08
Fruhling & Co.	528,994	44,082.83
Antony Gibbs	46,739	3,894.92
C.J. Hambros	318,430	26,535.83
Huth & Co.	517,990	43,165.83
Kleinwort & Sons	1,526,769	127,230.75
Lazard Brothers	494,620	41,218.33
Matheson & Co.	98,158	8,179.83

(continued)

Table 5 (continued)

Banks	Annual total amounts	Monthly average amounts
Merchant Banking Co.	244,485	20,373.75
J.S. Morgan	213,919	17,826.58
Morton Rose	148,718	12,393.17
Rathbone Brothers	42,929	3,577.42
N.M. Rothschild & Sons	495,772	41,314.33
A. Rüffer & Sons	453,452	37,787.67
Samuel Montague	55,000	4,583.33
Speyer Brothers	55,000	4,583.33
J.H. Schröder	829,962	69,163.50
Seligman Brothers	144,664	12,055.33
4. British Overseas Banks		
Anglo-California Bank	215,602	17,966.83
Anglo-Egyptian Bank	188,113	15,676.08
Anglo-Foreign Bank	167,279	13,939.92
Bank of Australasia	179,338	14,944.83
Bank of British North America	165,532	13,794.33
Bank of Egypt	4,567	380.58
Bank of Montreal	202,840	16,903.33
Bank of New Zealand	116,544	9,712.00
British Bank of South America	437,743	36,478.58
Chartered Bank of India, Australia & China	91,750	7,645.83
Colonial Bank	35,795	2,982.92
German Bank of London	248,022	20,668.50
Hongkong & Shanghai Banking Corp.	32,695	2,724.58
London & Hanseatic Bank	463,566	38,630.50
London Brazilian Bank	328,615	27,384.58
London, Paris & American Bank	66,532	5,544.33
London River Plate Bank	302,631	25,219.25
Union Bank of Australia	789,459	65,788.25
5. Foreign Banks		
Anglo-Austrian Bank	199,881	16,656.75
Bank of Rumania	103,900	8,658.33
Crédit Lyonnais	275,915	22,992.92
Comptoir d'Escompte	215,103	17,925.25
Deutsche Bank	1,007,914	83,992.83
Dresdner Bank	80,821	6,735.08

(continued)

Table 5 (continued)

Banks	Annual total amounts	Monthly average amounts
Imperial Ottoman Bank	159,709	13,309.08
International Bank of London	168,165	14,013.75
Société Générale	26,947	2,245.58
Yokohama Specie Bank	30,000	2,500.00

Notes
1. Sterling
2. Not included all the customers

Source Guildhall Library, Gillett Brothers Archives, MS 24688/1, tabulation relating to the Firm's Business

Incidentally, what happened to bills after they were purchased and discounted by a bill-broker or a discount house? In the case of Gillett Brothers, the firm held the bills and entered their details in its records. They were held at Gillett Brothers in its "case" or "portfolio" of bills for approximately one month and offered in security to financial institutions such as the Lcbs that left their liquid funds with the London discount market in the form of day-to-day loans. Then, the bills were sold to the Lcbs with the endorsement of Gillett Brothers. Therefore, it may well be said that fine bank bills within 60 days later after sight, drawn by a firm of good standing, accepted by a respectable bank, and based on genuine transactions, could be regarded as the finest liquid investment that financial institutions could have in London.[105]

5 Conclusion

The financial institutions in London played the central role in controlling the international gold standard system of the pre-First World War, that is to say, the sterling regime. London financial institutions got involved deeply in the finance of international trade. In multilateral trade settlement mechanisms, actual clearance came to concentrate on London, which occupied the position of the world's largest financial center.[106] The London financial institutions such as merchant banks, the Lcbs, Bob, and foreign banks accepted sterling-denominated bills on London drawn from abroad. On the basis of this credit system, the London discount market, consisting of bill-brokers and discount houses who received call money from the Lcbs, negotiated and discounted a large number of bills. The final settlement of bills on London was made by account transfer at the Lcbs.[107]

In this way, "the bill drawn on London was the centerpiece of a growing and complicated machine of which the principal components were the eastern exchange

[105] Sayers (1968, pp. 57–8).

[106] Saul (1960).

[107] Gillett Brothers Discount Co. Ltd. (1952, pp. 49–58).

banks [Bobs]". These sterling-denominated bills on London came to have an important role in international trade. This is why "on the gold standard, bills accepted by first class London houses were the same as gold, as they could always be discounted in the London discount market, the proceeds converted into gold if the state of the exchanges justified it, and the gold taken out the country to any part of the world. This gave the pound [sterling-denominated] bill on London the supreme position which it held during the years over the turn of the [twentieth] century, as the predominant instrument for the finance of international trade".[108]

The acceptance of foreign bills that the London financial institutions gave on the basis of credit through a letter of credit made it possible for overseas exporters and British exporter in London as well, to receive the proceeds of bills as soon as they fulfilled shipment. The London discount market circulated these bills freely. Although a variety of financial institutions got involved, the final settlement of bills drawn in international trade was carried out in the accounts of the Lcbs—"the London balances". These banks acted as the correspondents of Bobs and foreign banks. As a result of the concentration of settlement, London came to act as the primary "international clearing house", the central position in world trade, and grew to be the largest international financial center by the end of the nineteenth century.[109]

The activities of the London discount market are of great importance to London's function of finalizing settlement in world trade. Most of the London financial institutions desired to, by any means, avoid the awkward position of holding bills drawn in international trade to maturity and of locking up funds in the bills. To serve this need, the London discount market, which had developed to facilitate circulation of inland bills by bill-brokers and discount houses since the eighteenth century, became the market for bills drawn from abroad. In order to secure trade stability, it was necessary to be averse to risks incurred due to asymmetry of information about bills drawn from abroad, foreign domicile bills, and non-gold standard denominated currency bills that carried no detailed credit record and uncertainty. Hence, the bills that could circulate in the London discount market were confined only to sterling-denominated bills on London that were accepted or endorsed by financial institutions resident in London. This eventually created the structure and function of the London discount market, which was effective in preventing dishonor and the exchange rate fluctuations in bill transactions, and followed the business practices and techniques having been formed in domestic bill transactions. With this as a background, Bobs vigorously pursued bill transactions in Asian trade by employing low-interest funds in London. Galbraith rightly described this as "all who were subject to insecurity sooner or later set about eliminating it as it affected themselves".[110]

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[108] Gillett Brothers Discount Co. Ltd. (1952, p. 16).

[109] Wilgress (1912–13, p. 211); Clarke (1958, p. 20).

[110] Galbraith (1984, p. 83).

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Chapter 6
A Case Study on British International Banks: The London Office of the Hongkong and Shanghai Banking Corporation, 1875–1889

Manhan Siu

Abstract The years 1875–1889 saw changes caused by improved transportation, communication and the long-term declining trend in the value of silver that led to the rise of the Hongkong and Shanghai Banking Corporation (HSBC). The HSBC's success could be attributed mainly to its adoption of the "on an even keel" policy. The London Office of the bank played an essential role in implementing this policy. In this chapter, I used chiefly the correspondence of David McLean, the manager of the London Office from 1875 to 1889, in examining the actualities of business activities in the London Office of HSBC. This chapter divides into four sections. Section 1 analyzes the finance trade business. Section 2 examines the relationship of HSBC and its correspondent banks. Section 3 considers the deposit-taking activities while Sect. 4 deals with cooperative relationship between British international banks. This research revealed that HSBC strengthened its financial networks in London in responding to changes in international payment system as well as the growth of its trade finance business. Moreover, it showed that the dynamics of competition and cooperation between international banks were significant in shaping the international payment system between Asia and the West and vice versa. By the middle of the 1880s, HSBC proved an unwavering position in international capital movement between East Asia and Britain.

Keywords International banking of Asia · HSBC · Even keel policy · Interest Bills · London

The years 1875–1889 saw changes caused by improved transportation, communication and the long-term declining trend in the value of silver that led to the rise of the Hongkong and Shanghai Banking Corporation (HSBC) and the fall of the Oriental Banking Corporation. Most currencies of Asian countries were based on silver until the end of nineteenth century. As the exchange rate of silver in terms of gold had been stable before 1870s, British international banks conducting foreign exchange business between Asia and gold using countries had given little consideration to

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the risk associated with fluctuations of gold-silver exchange rate. It was under these circumstances that the banks that did not seek a workable solution in coping with the exchange problem had either to reduce the scale of their business or to become bankrupt.

The rise of HSBC depended on its adoption of the "on an even keel" policy. This is a phrase of Thomas Jackson, the chief manager of HSBC at that time (Collis 1965, p. 61). It properly showed the distinctive feature of this policy. In other words, the bank had to match the assets and liabilities in both gold and silver, respectively. Therefore, this strategy required wide-ranging changes of banking operations involved foreign exchange business. Although Professor King used this phrase as the subtitle of the first volume of the official history (King 1987), he paid little attention on foreign exchange practices and fund management of HSBC. The impact of silver depreciation on foreign exchange business of international banks operating in Asia has drawn considerable attention from scholars in Japan.[1] While these studies deepened our understanding of international banks' trade finance business, they did not answer the question concerning how HSBC carrying out the policy in tackling silver problems.

The London Office of HSBC played an essential role in implementing the "on an even keel" policy.[2] By 1875, there were seven British international banks operating in Asia, HSBC was the only bank that had its head office in Hong Kong but not in London. When HSBC started its business in 1865, it opened London Office as a branch and placed more importance on local business in China. With the establishment of London Consultative Committee in 1875, London Office became a center of authority of almost the same importance as the head office in Hong Kong. In this chapter, I will delve into the actualities of business activities in the London Office of HSBC, especially, of the following three aspects. Firstly, the changes of foreign exchange operations of trade finance during the 1870s and 1880s. Secondly, the relationship between HSBC and the other international banks. Lastly, how HSBC connected to London money market. The main archival source used here is the correspondence of David McLean,[3] the manager of the Shanghai Branch from 1865 to 1872 and the manager of London Office from 1875 to 1889. D. McLean was an outstanding banker and made great contribution to HSBC's early development. His correspondence was valuable in analyzing the banking business of HSBC in the 1870s and 1880s.

[1]Kitabayashi's study focused on the business crisis of the HSBC occurred in 1886 and pointed out the limitation of this policy (Kitabayashi 1992). Ishi (1999, pp. 15–123) showed the rise and fall of international banks in China and Japan by examining the banking transactions of the Yokohama branch of Jardine Matheson & Company, one of the most influencial British trading companies in East Asia. Ishi (1998, pp 133-162) examined the banking transactions of Jardine Matheson & Company as well, but her study concentrated on banking business in China.

[2]Although the general development of the London Office was sketched in the published banking history of the HSBC, professor Frank H. H. King did little to explore the relation between trade finance business and the development of the London Office in depth.

[3]The main source in this chapter is Letter Books of David McLean in David McLean Papers, MS 38041, the Library, School of Oriental and African Studies, University of London [hereafter referred to as MP].

1 Exchange Business

The London Office was a key branch of HSBC in foreign exchange business between Asia and the West. Moreover, it also functioned as a regional head office in supervising business at branches in San Francisco, New York, Lyon and Hamburg that opened between 1875 and 1889. The routine business of London Office included collecting payment for bills purchased by head office and branches in Asia, making payment for telegraph transfers (T.T.) and short-term bank drafts on London sold by Asian offices, buying documentary bills on exports from Britain to Asian countries, remitting funds to Asian branches by sending silver, Council Bills, or sight drafts in rupees on India sold by Indian Office in London.

1.1 Export Trade Finance

Firstly, let us examine the exchange business of financing British exports. Table 1 shows that the total exports from Britain to Asian countries grew 14% between 1875 and 1886, while over this period the amount of documentary bills purchased by HSBC increased more than twice. This business expanded rapidly in the 6 years between 1875 and 1881 while the pace of growth was slowed down between 1881 and 1886. The feasible explanation for the cause of this rapid growth in the late 1870s was the fall of the Oriental Bank, the void left by the Oriental Bank was quickly filled in by the HSBC. In spite of the great progress it had made, HSBC only financed 10.4% of

Table 1 Export bills purchased by London Office of the HSBC and exports from Britain to Asia, 1875–1886 (in £1,000)

Britain's exporting countries	1875	1881	1884	1886
China	4,928	5,965	4,153	5,249
Hongkong	3,600	3,615	3,219	2,315
Japan	2,460	2,825	2,255	2,170
Straits Settlement	1,962	2,564	2,633	2,107
India[a]	25,323	30,051	31,322	31,965
Total exports (A)	38,273	45,020	43,582	43,806
Amount of bills purchased (B)[b]	1,721	4,381	4,569	4,561[a]
Share = B/A (%)	4.50	9.70	10.50	10.40

Source Data for Britain's exports, derived from Page (1919, pp. 109, 113)
Data for amount of bills purchased: McLean to the Board of Directors of the HSBC, 17 February, 1882, McLean to Jackson (Hong Kong), 14 January 1885, McLean to Cameron(Shanghai), 20 January, 1887, MP
[a]Including Ceylon
[b]Bills on Straits Settlement is not included

UK's exports to Asia in 1886. China and Japan were more important than India for HSBC though the latter country occupied a large part of the British exports to Asia.

1.1.1 Silver Currency Bills

With the decline of silver and the global developments in transportation and telegraph communications, the method of financing British exports to Asia underwent great changes in the 1870s. By the early 1870s, most of the British goods were sold on consignment in Asia. British exporters would draw bills on London when they shipped the goods off. After 1876, instead of drawing sterling bills, British exporters would draw 60 days' sight bills on Asia in local silver currencies, such as taels for Shanghai and Mexican dollars for Hong Kong and Yokohama, which an international bank in London would buy at a rate of exchange they fix themselves.[4] The bills purchased were then sent to the banks' Asian branches for collection. As a result, this kind of bills transferred the exchange risk from export merchants to the banks. In addition to silver currency bills, a new type of sterling bill called interest bills was also devised and became widely used as well. The bank's interest bills business will be examined in detail in Sect. 1.1.2.

Silver currency bills were mainly drawn for financing exports to China and Japan because of the difficulties in doing forward exchange business there. Tea and silk, the principal exports of both China and Japan, were practically exported between June and September and subsequently the sale of export bills were concentrated during this time of the year. Moreover, the uneven quality of tea made it difficult to be sold "forward." Contrastingly, most of the export of India could be sold "forward" because of two reasons. Firstly, business was done throughout of the year. Secondly, Council Bills sold by India Council in London amounted to about 14 million pounds annually, a large figure when compared with the value of trade between Britain and India. These features enabled forward exchange business to be developed in India. Thus, in India's case, an British exporter would simultaneously draw on London and telegraph to his correspondent in India to buy forward exchange in sterling in amount equivalent to the proceeds of the goods, thus ensuring himself a certain return for the goods when the proceeds sent back to Britain.[5]

As shown in Table 2, the export bills purchased by the London Office of HSBC were mainly drawn on China and Japan in 1884 and 1886. Bills on Shanghai, Hong Kong and Yokohama accounted for 30–50% of total exports of Britain to China, Hong Kong and Japan, respectively, in both 1884 and 1886. As most of the exports from the USA and Europe to Asia were financed by London, the share of exports financed by HSBC may be over exaggerated. However, even taking this fact into

[4]Royal Commission appointed to inquire into recent changes in the relative values of the Precious Metals with Minutes of Evidence, First Report, British Parliamentary Papers, 1887, Volume XXII, p. 157.

[5]Royal Commission appointed to inquire into recent changes in the relative values of the Precious Metals with Minutes of Evidence, First Report, British Parliamentary Papers, 1887, Volume XXII, pp. 160–1, 258–607.

Table 2 Export bills purchased by the HSBC by place of collection, 1884–1886 (Unit: £1,000)

Place of collection	1884			1886		
	Bills purchased (A) (%)	Exports of Britain (B)	A/B (%)	Bills purchased (A) (%)	Exports of UK (B)	A/B (%)
Shanghai (China)	1,567(34.3%)	4,153	37.70	1,785(39.1%)	5,249	34.00
Hongkong	1,028(22.5%)	3,219	31.90	1,107(24.3%)	2,315	47.80
Yokohama (Japan)	1,018(22.3%)	2,255	45.10	1,177(25.8%)	2,170	54.20
Bombay and Calcutta (India[a])	723(15.8%)	31,322	2.30	514(11.3%)	31,965	1.60
Singapore (Straits Settlements)	233(5%)	2,633	8.80	NA		
Total	4,569(100%)	43,582	10.50	4,562(100%)	41,699	10.90

Source Same as Table 1
[a]Including Ceylon

consideration, the data still clearly shows that HSBC was in a dominant position in the exchange business of China and Japan.

One of the reasons leading to the success of the HSBC in trade finance was its willingness to adapt to the local environment. From the latter half of the 1870s, European importers began to import goods based on order from Japanese merchants, rather than based on prediction as in the former times. This business practice becomes more common in the 1880s. As the transactions were basically on cash basis and most of the Japanese merchants could not settle the payment for all the goods they ordered at one time, they would collect the goods and pay for that several times (Ishi 1984, pp. 205–6, 389). In the case of China, most of the goods imported based on sales prediction and Chinese merchants usually made payment in a 10 days' sight draft of native banks. Thus, the European importers in both China and Japan had to store the stock in a warehouse until it was collected or sold. Therefore, there was a time lag in receiving the proceeds of goods and making payment to the bank.

If the importers could dispose the imported goods before they settle the bills, it would certainly improve the cash flow of their business to a large extent. HSBC was very probably the first bank that was willing to take their own risk and allowed importers to do that while other banks including the Chartered Bank of India, Australia and China were reluctant to do that.[6] However, it seems that this business

[6]MP. In a letter from McLean to Jackson dated 17 December 1880, McLean wrote that, "I understand a good number of our customers get the goods into their own godowns." In the same letter, McLean mentioned about the measure taken by the Chartered Bank. "The Chartered has had some difficulty with J Batt & Co [exporter in Britain] & Melcher & Co [importer in Asia]. The latter want the goods in their own godown & say that the Hongkong Bank give them up. Gwyther [manager of Chartered Bank] won't do it unless John Batt & Co. authorize them & this they decline to do."

practice was eventually adopted by most of the international banks in the 1880s[7] and still existed by the end of 1890s.[8]

As international banks had to bear the exchange risk at the use of silver currency bills, they tried to hedge against exchange risk, by buying equivalent amounts of bills on London in Asia as cover when they bought silver bills in London. How did they secure their profit? In his letter to Jackson, McLean mentioned how the London Office set the exchange rate of the 60 days' sight bills.[9]

> "As a rule, we buy 60d/st at 2d. under your rate for 4 months private.
>
> £100@3s.6d. = $571.43 @ 3s.8d. 4m/st £104 15s. 3d.
>
> Allow
>
> 37 days out [delivery time for sending bills from London to Hong Kong]
>
> 37 days home [delivery time for sending bills from Hong Kong to London]
>
> 63 days for 60 days' bills to mature
>
> 123 days for 4 months' sight bills to mature
>
> 7 days extra
>
> Altogether 267 days @ 3 1/2% (rate for overdrafts last 6 months) = £ 2 11s. 3d.
>
> Stamp 1s.
>
> Profit £ 2 3s.
>
> 2.3 per cent net profit on the transaction.
>
> This estimate also applies to Singapore and Yokohama."

In other words, the exchange rate of the 60 days' sight silver currency bill quoted for every Mexican dollar was as a rule £.0.0083(=2d.) less than that of 4 months' documentary bill. When London Office purchased a 2 months' sight silver currency bill at $1 = £0.175(=3s.6d.) for £100, they would get $571.43. Simultaneously, Hong Kong Office would use this amount of money to purchase a 4 months' sight bill at $1 = £0.183(=3s.8d.), then they would get £104.76 (£104.15s. 3d). After

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[7] "Shanghai Manager letter with reference to allowing Merchants to store goods in their own godowns, and Resolved: that the Manager may at his discretion allow this to be done. It being understood that this facility is to be given to firms of undoubted character and good means only, and the working of the business to be carefully watched by the Manager" (4 April 1888, Minutes of Mercantile Bank, Board Minute Books, Mercantile Bank History, MB HIST2308.1-2308.5, HSBC Group Archives).

[8] As mentioned in the inspector's report on Yokohama branch of HSBC in 1896, "Bills Receivable: …you are aware that the goods against which the Bills are drawn given into the custody of the acceptor of the Bill on arrival in nearly every case. We have tried all we could to start neutral godowns but the scheme did not answer and the company in which the Bank was the largest shareholder has now been wound up. … We must insist on regular inspection of godowns and making Constituents pay into an Instalment Account the proceeds of any goods dispose of before the maturity of their acceptance. I think this rule is at present fairly adhered to and that with good supervision we do not run any great risk in thus parting with our property."(*Inspector's report on Yokohama Branch*, 9 January, 1896, HSBC Group Archives)

[9] MP. Letter from McLean to Jackson, 14 January 1885.

deducting the interest for 267 days (74 days for delivery of both bills, 186 days for both bills to mature and 7 extra days) at rate for overdrafts in the last six months and stamp duty, the net profit would be £2.15 (=£2.3s), i.e., the rate of net profit would be 2.15%. Although there were times that the London Office could not secure a £.0.0083 difference in quoting their exchange rate, the exchange rate of the 2 months' sight silver currency bill quoted was principally based on this rule during most of the 1880s. In addition to the 4 months' sight documentary bill, T.T. on London was also an option as cover of the 2 months' sight silver currency bill.

The depreciation of silver price affected Shanghai, where silver taels were used, more than places using Mexican dollars such as Hong Kong, Singapore and Yokohama in the latter half of 1886, a time marked by the vigorous fluctuation in the pricing of silver. For example, the difference of 60 days' sight bills on Shanghai and T.T. on London averaged £0.0053 for every Shanghai tael in the first six months of 1886, then it jumped to £0.0107 in the second half of the year, much larger than that of Hong Kong of the same period.[10]

All international banks did not align their policy in quoting the exchange rate of the 60 days' sight silver currency bill by 1886. While HSBC tried to use the same standard throughout the year, the other banks usually quoted an exchange rate more favorable to British exporters during the export season of Asian produce, a time when there was an export transaction corresponding to every import transaction. However, they may have not been willing to quote a rate, especially for bills on China, during off season of exports.[11] Thus, buying silver currency bills at exchange rate on the same standard throughout the year was very probably one of the key factors that led to the growth of HSBC's exchange business.

However, this business came to a turning point in the middle of 1880s.[12] With the sharp decline of silver price, whether the bank should continue to purchase silver currency bills in forward exchange or not had already been the subject of heated discussion among the management of HSBC from the end of 1884.[13] After a

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[10]The average calculated was based on the data in Appendix IXof Royal Commission, 1887, Vol. XXII.

[11]McLean wrote to Jackson in a letter dated 17 December 1880, MP, "What I have told and impressed upon our customers is this. That we are always prepared to take their drafts at a fair difference, say 2d per $ or 2.5 d on Shanghai for 60 days sight under 4 months sight of the Bank's quotations and I consider it unfair to pass us when rates are low, to another bank who appears as purchaser when rates are tempting as they have been lately and which won't look at bills when rates are high in China and Japan." McLean mentioned the same thing in another letter to Jackson dated 2 April 1880, MP.

[12]For the loss of HSBC caused by the fall of silver in 1886, see Kitabayashi (1992), King (1987, pp. 319–321).

[13]In a letter to Jackson dated 14 January 1885, MP, McLean tried to persuade Jackson to continue forward purchase at London. He wrote that "with reference to our forward purchases of 60 days sight Bills on China and Japan. I would point out that we never give higher rates forward than those current for immediate delivery, and if the Branches interested will only buy a little each mail in excess of their immediate requirements, the profits on our purchase are at once secured…. The merchants find they cannot work their business unless they can settle the exchange forward so if we stop buying forward altogether the business will go to our neighbours."

while, both London Offices of HSBC and the Chartered Bank temporarily stopped to purchase forward silver currency bills in November and December of 1885, respectively.[14] In 1886, all British international banks operating in Asia changed their policy in exchange business from competition to cooperation among themselves. They gave up the hitherto way of quoting their own exchange rates on silver currency bills and fixed the rates weekly together. The agreement between the British international banks will be examined in detail in Sect. 4. This agreement could be considered to be one of the preconditions for making interest bills the sole form of export bills in the 1890s.

1.1.2 Interest Bills

At the time when silver currency bills were introduced, sterling bills also began to be used in financing exports trade to Asia in London. McLean wrote to Thomas Jackson in Hong Kong about interest bills in 1876 as follows. "Our outward business is falling off very much & with the other Banks too. Those that sold through the Banks have lost owing to the high rate this summer and many of the houses who drew are now financing on this side. Some are getting advances from our neighbors at 7% interest. Will it suit you and Cameron [manager of Shanghai branch] to make advances on this side at 7% interest payable at your sight drawing rate".[15] This was the first time that interest bills (also called advance bills) was mentioned in McLean's letter. Although both the terms "interest bills" or "advance bills" were not used there, they consisted of the characteristics of the so-called interest bills. That is (1) denominated in sterling, (2) an advance was provided to exporters in London, (3) was settled with bank draft on London at the exchange rate of the Asian ports.[16] Therefore, by the judgment of this author, the phrases like "the advances at 7%," "advancing business" used under the heading of "outward business" in McLean's correspondence will be interpreted as interest bills. International banks did not purchase interest bills in the same way as ordinary documentary bills. When an exporter drew an interest bill on an Asian importer, the London Office would usually advance money to the drawer of the bill. The bill, as the security of the advance, would be sent to the bank's Asian office for collection. When the bill is paid and the money has been received in London, the bank will settle with the bill drawer. In fact, the term "interest bill" had not been used even by the end of the 1880s. In the report of Royal Commission on Gold and Silver published in 1887, A.D. Provand, a merchant traded with China, explained export trade finance with interest bills as follows, "the banks make advances against

[14] On 6 November 1885, MP, McLean wrote to Jackson that "As a rule, we can always buy forward at the current rates. At the moment we are refusing all business on Hongkong for forward delivery which I think is a mistake." In regard to the forward business of the Chartered Bank, McLean wrote to Jackson that, "The Chartered is in a funk about Silver and won't buy forward as all the business has come our way" (Letter from McLean to Jackson, 24 December 1885, MP).

[15] Letter from McLean to Jackson, 27 October 1876, MP. The earliest interest bills used by Shanghai branch of Jardine Matheson & Co. was in April 1877 (Ishi 1998, p. 158).

[16] For the explanation of interest bills, see Nishimura et al. (2012, p. 65).

Table 3 Export bills in sterling purchased by the London Office of HSBC, 1884–1886 (Unit: £1,000)

Place of collection	1884				1886			
	Sterling (A)	Silver currencies	Total (B)	A/B (%)	Sterling (A)	Silver currencies	Total (B)	A/B (%)
Hongkong	538.0	490.0	1,028.0	52.3	371.2	735.7	1,106.9	33.5
Shanghai	1,222.0	345.0	1,567.0	78.0	550.0	1,206.0	1,756.0	31.3
Yokohama	483.0	535.0	1,018.0	47.4	267.7	908.8	1,176.5	22.8
Bombay	102.0	154.0	256.0	39.8	87.4	129.5	216.9	40.3
Calcutta	48.0	418.6	466.6	10.3	33.9	262.9	296.8	11.4
Total	2,393.0	1,942.6	4,335.6	55.2	1,310.2	3,242.9	4,552.2	28.8

Source Same as Table 1

shipments at 6 and 7% per annum, but in such cases the merchant runs the risk of the exchange which is taken at the rate current at the port of arrival in the East when the advance is paid off." In addition, he pointed out that "strictly speaking, the banks do not lend the money to the merchant?—Strictly speaking, they do not. It is an exchange, and not a loan transaction that takes place between them" (Royal Commission on gold and silver 1887, p. 167).

HSBC started to purchase interest bills not later than 1878. From then on, there was keen competition between international banks in buying interest bills. In order to finance exports of big firms such as Jardine Matheson Co., Turner & Co. and Melchers & Co., HSBC gave them better terms than exporters with less mean.[17] As a practical matter, to what extent was interest bills used? Table 3 shows that the ratio of interest bills to total exports finance of the London Office dropped from 55.2% in 1884 to 28.8% in 1886. Although silver currency bills went out of use and was superseded by interest bills in the 1890s (Kitabayashi 1987), the use of interest bills did not increase with time in the transitional period.

1.1.3 Profit of Export Trade Finance Business

How much profit did London Office gain from financing export trade? As shown in Table 4, the estimated net profit of exports trade finance of London Office contributed to nearly 20% of the net profit of HSBC. This estimate was based on McLean's method for calculation of the rate of profits.[18] The estimated net profit must be a realistic

[17]In his letter Jackson, 17 December 1880. McLean wrote that,"The Chartered Bank is bidding for China and Japan business at rates quite out of proportion to the current rates in China and Japan." In regard to the big firms, McLean wrote to Jackson that, "Melchers: I have arranged to do all the outward business @ 6%. The bills will bear interest @7% so you will please return the difference to Melchers or rather charge them 6%." (13 August 1880, MP). Moreover, arrangement with Jardine Matheson & Co. was mentioned in another letter (McLean to Jackson, 17 December 1880, MP).

[18]McLean to Jackson, 9 January 1885, MP.

Table 4 Profits of export finance business of the London Office, HSBC, 1884–1886 (in £1,000)

		1884	1886
Export bills in sterling	Annual purchased amount	2,393	1,310
	Profit (A)	34.9	19.1
Export bills in silver currencies	Annual purchased amount	2,175[a]	3,243
	Profit (B)	46.76	69.73
Total profit of export bills	(A) + (B) = (C)	81.66	88.83
Total expenditure of London Office	(D)	9.47	9.47
Net profit of London Office	(C) − (D) = (E)	72.19	79.36
Net profit of the HSBC	F	271.91	209.92
Share	E/F	26.55%	37.80%

Source Data for annual purchased amount of export bills in sterling as well as in silver currencies, same as Table 3. For method of profit calculation, McLean to Jackson, 9 January 1885, MP. According to McLean's method of calculation, in the case of export bills in sterling, the profit would be 3.5% per annum while in the case of export bills in silver currencies, the profit would be 2.15% of the amount purchased. Net profit of HSBC derived from King (1987, p. 313)
[a]The amount derived from subtracting the export bills in sterling from total bills purchased
[b]The amount of export bills purchased does not include bills on countries of South East Asia

figure as McLean wrote to Cameron in 1881 that, "next to the China loan business, the next best part of our profits come from the outward business, but this is now being cut into very much and before long the margins will have to be cut down. However, we shall do our best to keep them about present level".[19]

1.2 Import Trade Finance

Exports from Asia to Britain were financed with documentary bills. The bills purchased by branches and head office in Asia would immediately be sent to London Office for collection. The fund used for purchasing documentary bills in Japan and China included capital allotted to branches, deposits received locally, income obtained from the sale of T.T., and drafts drawn on London and other branches. Table 5 shows that, the total amount of bill receivables purchased by branches and head office in Asia increased to £20,472,000 in 1881, about three times of that of 1875, grew from 13% in 1875 to 41.9% in 1881 of the total imports from Asia to Britain. The number of bill receivables corresponds to this increase and shows the same trend of expansion. Considering the fact that a large part of the Asian trade with Europe and the USA was financed by London money market, it is difficult to estimate the accurate share of import trade financed by HSBC. Nevertheless, there is no doubt that by 1881 HSBC had grown to become a bank of great importance in Eastern exchange business.

[19]McLean to Jackson, 22 December 1881, MP.

Table 5 Import trade finance of the London Office, HSBC, 1875–1881 (in £1,000)

	Imports of Britain from Asia					Exchange business of London Office		
	China[a]	Japan	India[b]	Straits Settlement	Total (A)	Amount of Bills Receivables (B)	Number of Bill Receivables	B/A (%)
1875	14,810	378	34,518	3,149	52,855	6,861	5,897	13.00
1881	11,718	676	32,629	3,784	48,807	20,472	20,862	41.90

Source Data for Imports of UK from countries of Asia, Page (1919, pp. 108, 112). Data for exchange business of London Office, D. McLean to the board of directors, HSBC, 17 February 1882, MP
[a]including Hongkong
[b]including Ceylon

How did international banks quote exchange rate of 4 months' sight documentary bills? How profitable was this business? According to McLean, the exchange rate of documentary bills was principally based on that of T.T. on London. The latter rate linked directly with both the price of silver in London and the delivery cost of sending silver from London to Asia. For every £100 the gross profit could be obtained by deducting interest for 167 days of £100 to be paid and the stamp tax from the difference between purchasing 4 months' sight and selling T.T. on London with £100.[20] As indicated in Table 6, the difference between the exchange rate of T.T. on London and 4 months' sight documentary bills in Hong Kong dropped drastically in 1885, then maintained at a low level by 1888 and had a sudden rise in 1889. The margin between purchasing 4 months' sight and selling T.T. on London was very slim because of keen competition for obtaining exports bills between banks in the 1880s. Basing on the calculation method devised by McLean, for the ten years from 1880 to 1889, there were six years that HSBC might have incurred losses in the 1880s in exports bills business in Hong Kong. An increase in Bank Rate of the Bank of England would directly affect the amount of profit or loss in the operation.

The amount of the documentary bills purchased by Asian branches accounted for a large proportion of liquid assets of London Office. London Office had the options of discounting these bills at London discount market, holding these bills until they fall due, or using these bills as security to obtain advances from financial institutions in London. In any case, London Office had to establish a correspondent link to make use of the London money market.

2 Relationship with the Correspondent Bank

In February 1865, a few months before the commencement of business of the London Office, HSBC reached agreement with the London and Westminster Bank on the

[20]McLean to Jackson, 14 January 1885, MP.

Table 6 Estimated profit on exchange operation in financing export from Hong Kong to Britain

Year	T.T. on London in Hongkong (a) ($1 = x Pence)	4 months' sight bill in Hongkong (b) ($1 = x Pence)	Difference in selling (a) and buying (b) for £100[a] (c) (in £)	Bank rate of Britain[b] (%)	Interest and stamp duty for £100 (d) (£)	Estimated rate of profit (e) = (c) − (d)
1880	44.890	45.657	1.709	2.763	1.284	0.425
1881	44.372	45.048	1.523	3.503	1.614	−0.091
1882	44.461	45.274	1.829	4.138	1.898	−0.069
1883	43.540	44.267	1.67	3.563	1.641	−0.029
1884	43.784	44.524	1.69	2.448	1.143	0.547
1885	42.012	42.418	0.966	2.917	1.353	−0.387
1886	38.683	39.168	1.254	3.065	1.369	−0.115
1887	37.859	38.332	1.249	3.342	1.542	−0.293
1888	36.409	36.907	1.368	3.319	1.532	−0.164
1889	36.478	37.177	1.916	3.561	1.64	0.276

Source Data for T.T. on London and 4 months' sight bills in Hong Kong exchange market, Schneider et al. (1992, pp. 100, 107)
Data for Bank Rate, Nishimura (1980, pp. 440–441)
[a]The calculation based on the formula (c) = £100 × (1 − a/b)
[b]Yearly average

details of establishing corresponding banking relationship. The terms of the agreement were (1) the London and Westminster Bank (LWB) would accept bills drawn by HSBC up to a maximum of £500,000 covered by approved bank or mercantile paper at or under six months' sight, and an uncovered position of a further £100,000 for exceptional purposes or circumstances, (2) HSBC would keep on deposit a minimum balance of £10,000 without interest. Upon the termination of the agreement with the LWB, HSBC entered correspondent banking agreement with the London and County Bank (LCB) in December 1865. The terms of this agreement were more favorable to HSBC than the one with LWB as LCB would enlarge facilities granted and would accept bills drawn by HSBC up to £1,500,000 and £100,000 uncovered accommodation. However, HSBC was required to keep on deposit a minimum balance of £20,000 without interest (King 1987, pp. 99–101).

The enormous loss of the London Office led to the decision of setting up a London Consultative Committee in 1875. Newly appointed as manager of London Office, McLean exerted himself to set up the Committee. The Committee consisted of A. H. Phillpotts, a director of the LCB, E. F. Duncanson with T. A. Gibb and Co., and Albert Deacon, partner in E. A. Deacon and Co. (King 1987, pp. 100–1).

With the expansion of exchange business, HSBC and LCB changed their correspondent arrangements in April 1879. The limit of credit would then be increased to £2.5 million while the amount of uncovered accommodation would stay the same as before, i.e., £100,000, but could be increased by a further £100,000 for exceptional purpose (King 1987, pp. 100–1). Despite obtaining better credit facilities, HSBC

Table 7 Bills payable of the HSBC, 1876–1889

Year end	£ Equivalent in millions of HK$	£ Equivalent in millions of pounds	Exchange rate, $1 = £ y
1876	24.4	(5.08)	£0.2083
1877	24.7	(4.84)	£0.1958
1878	22.3	(4.09)	£0.1833
1879	20.3	(3.89)	£0.1958
1880	14.6	(2.68)	£0.1833
1881	15.4	(2.86)	£0.1854
1882	17.0	(3.05)	£0.1792
1883	16.0	(2.93)	£0.1833
1884	15.6	(2.76)	£0.1771
1885	20.8	(3.47)	£0.1667
1886	17.2	(2.83)	£0.1646
1887	16.8	(2.63)	£0.1563
1888	19.6	(2.98)	£0.1563
1889	17.3	(2.70)	£0.1563

Source Published accounts of the HSBC derived from King (1987, pp. 274, 290, 317, 432)

was not totally satisfied with the arrangements because the credit facilities were not enough to meet an increasing demand for fund. They made request to LCB repeatedly in order to get additional credit facilities.[21]

The financial devices used in settling international transactions underwent great changes with the development in telegraphic communications in the 1870s. T.T. came to take the place of drafts on banks. As shown in Table 7, the amount of drafts and bills at sight drawn by Asian branches on LCB and London Office decreased continually while the amount of T. T. drawn on London Office and the export bills purchases at London Office increased considerably from 1876 to 1889.[22] As a result, the London Office was constantly in an urgent need of funds.

One of the solutions for coping with the fund shortage problem was to obtain advances from LCB. The advances from LCB were of a short-term nature, mainly in the form of call loans. In January 1881, LCB agreed to advance HSBC to the extent of £250,000 against documentary bills to the limit of 95% of its face value at the Bank Rate.[23] With the increase in profit of HSBC, the credit line of advances was enlarged

[21]McLean to Morriss, 15 August 1879, MP.

[22]The total amount of payment on bank drafts and T.T. drawn by Asian branches and outward bills purchases increased from around £100,000 in September 1878 to £539,000 in December 1883 (McLean to Jackson, 7 December 1883, MP). McLean commented that, “London and County acceptances are down to £1,300,000. I think the day is not far distant when this mode of [business] will almost be done away with T.T. and short dated bills on London Office” (McLean to Jackson, 21 December 1880).

[23]McLean to Jackson, 21 December 1880, MP.

to £500,000 at the end of December 1882.[24] In July 1883, the two banks revised the agreement again, and the credit line was further increased to £750,000 (King 1987, p. 300). In addition to LCB, McLean also negotiated with other London banks such as London and Westminster Bank, Scottish Linen Bank for granting advances against documentary bills at Bank Rate in the early 1880s, but HSBC eventually preferred to do all the business with LCB alone.[25]

In 1880, following the suggestion of the LCB, HSBC established a reserve fund and deposited its securities at the former bank. About five years later, HSBC decided to set up another reserve fund, a special reserve fund that would be entirely separated from the one that set up at LCB and part of its securities were to be deposited with the Bank of England. This was likely to be an endeavor to weaken its dependence on the LCB.

3 Deposit-Taking Activities

"If they [deposits accepted in Britain] are sent out to the East and employed there in local advances, any sudden fall in silver might affect your profits considerably, but if the deposits are kept moving in outward and homeward remittances, there would be little or no danger on this score. All your silver deposits in the east could be employed in local advances and our sterling deposits available for sterling purposes".[26] D. McLean's policy of fund management of the bank meant that by keeping the balance of gold and silver assets and liabilities, at no time would the bank be seriously affected by the fluctuations and decline of silver. However, the success of this policy ultimately depended on the ability of the bank to obtain enough silver deposits in Asia as well as gold deposits in Europe.

Though the silver deposits were collected in Asia, most of the depositors were not local Asians, but both European and American trading firms and expatriates of the Treaty Ports. In other words, the better banking services it rendered was an important factor that led to its success. On the other hand, the London Office was the most important branch for obtaining gold deposits.

London office accepted both current deposits and fixed deposits. We will examine the current deposit first. As shown in Table 8, the amount of current deposits increased from £24,900 in 1875 to £93,200 in 1881 with the number of current deposit account increased from 150 to 400 respectively. Despite the considerable growth of current deposits, the amount of that dropped to 4.9% of the total deposits of the London Office.

In the same period, the London Office saw remarkable growth in its fixed deposit (see Table 9). The increase in amount was particularly significant between 1879 and

[24] McLean to Jackson, 29 December 1882, MP.

[25] Letters from McLean to Jackson dated 19 November 1880, 3 December 1880 and 20 November 1885, MP.

[26] McLean to Jackson, 30 June 1882, MP.

Table 8 Current deposits and overdrafts of the London Office, HSBC, 1875–1881 (in £1,000)

Year end	Current deposits	Overdrafts	No. of current accounts
1875	24.9	30.3	150
1881	93.2	111.2	400

Source D.McLean to the board of Directors, HSBC, 17 February 1882, MP

Table 9 Fixed deposits of London Office

Date	Fixed deposits of London Office		Total Deposits + Banknote		Share
	£ (a)	(HK$ Equivalent) (b)	HK$ (c)	(£ Equivalent)	b/c (%)
31 December 1875	266,000	(1,337,000)	13,410,000	2,668,000	9.9
30 April 1878	486,000	(2,535,000)	21,050,000	4,035,000	12.0
30 October 1878	510,000	(2,780,000)	24,490,000	4,493,000	11.4
24 December 1879	512,000	(2,668,000)	24,950,000	4,788,000	10.7
30 June 1881	1,372,000	(7,395,000)	31,920,000	5,922,000	23.2
31 December 1881	1,821,000	(9,815,000)	35,170,000	6,525,000	27.9
30 June 1882	2,143,000	(11,422,000)	37,740,000	7,080,000	30.2
2 December 1883	3,067,000	(16,715,000)	49,230,000	9,033,000	34.0
2 May 1884	2,687,000	(14,483,000)	49,620,000	9,206,000	29.2
17 May 1888	4,015,000	(27,800,000)	74,363,000	10,740,000	36.0

Source McLean to Jackson, 30 June 1882, MP, D. McLean to the Hongkong and Shanghai Banking Corporation Board of Directors, 17 February 1882, MP
(a) are the original figures shown in the correspondence. (b) are conversed with exchange rate shown in the published accounts of the HSBC

1883. The average amount of fixed deposit account grew from £1,080 to £1,380 while the number of these accounts grew from 247 to 1,547. As fixed deposit of the London Office grew at a faster rate than the total deposits of HSBC, its share of the total deposits was 10% in 1875 and reached 36% in June 1888.

The London Office relied heavily on the fixed deposits as working capital. The usual practice that depositors had to give a 12 months' notice in the case of cancelling the contract of fixed deposits suggested that the bank did not expose to the risk of sudden withdrawals. Fixed deposits were accepted at both London and Edinburgh. During the early 1880s, London Office offered 5% for 12 months' fixed deposits, and the interest rate was 0.5% higher than agency in Edinburgh. With the increase of fixed deposits accepted at London Office, the role of Edinburgh agency in receiving deposits became smaller and the Edinburgh operation eventually closed in the early 1880s.[27]

[27]McLean to Jackson, 3 November 1882, 27 November 1885. Also, King (1987, pp.154–155).

4 Cooperative Relations Between British International Banks

How far can we date back for cooperation between international banks operating in Asia for doing exchange business? The most well-known case for cooperation in exchange market is the reduction of the customary usance of sterling bills for exports from China and Japan from six to four months' sight after the crisis of 1866. As the newly established HSBC refused to join the agreement, the other banks were forced to return to the old system (Collis, 1965, p. 33). In 1878, HSBC eventually agreed to conform to the London banks' decision to shorten the usance of their sterling bills from six to four months' sight for China, Japan and the Straits Settlements and three months' sight for India (King, p. 291). However, agreement between international banks did not appear in David Mclean's correspondence until the early 1880s. He wrote in January 1881 that the meeting of the banks held at the Oriental Bank would discuss on the abolition of the habit of paying brokerage on all export bills.[28] In the letter from McLean to Cameron written in July that same year, McLean claimed that, "You may sneer at the Combination among the Eastern banks…".[29] We can infer that the cartel agreement between the banks was formed between late 1870s and early 1880s.

As we have seen in Sect. 1, the volatile changes in price of silver in the middle of the 1880s deteriorated the business environment in trade finance. Both HSBC and the Chartered was conscious about the exchange risk that their banks were exposed to with silver currency bills. Nevertheless, it is unknown when the silver currency bills cease to exist and when the interest bills became the sole export bills in financing exports from gold using countries. The transition is thought to have been taken place from the late 1880s to the early 1890s (Kitabayashi 1986). At any rate, the cooperation between international banks must have prompted this to happen.

The first thorough study on cartel agreement between London Offices of the international banks operating in Asia was made by Masao Yokouchi (Yokouchi 1996, pp. 151–185). He confirmed the existence of the formal organization of these banks by using a newly discovered written document drawn up at 1909 by Eastern exchange banks on agreement of rules regarding exchange business. He pointed out that the London bankers worked in accord in setting the interest rate for both fixed deposit of the London Offices and interest bills purchased by the banks.

Another document deposited at HSBC Group Archives showed that these Eastern Banks arranged a similar agreement in 1887. Table 10 shows the details of this agreement. There were 15 resolutions to be applied for branches or head offices in London and 3 rules to be recommended to the consideration of the branches of contracting banks in Asia. On the other hand, there were 26 clauses in the agreement of January 1909. If we compare the two agreements, we will find that agreement of 1909 included all the resolutions subject to business in London and rules recommended to the Asian

[28] McLean to Jackson, 7 January 1881 and 21 Jan 1881, MP.

[29] McLean to Cameron, 27 July 1882, MP.

Table 10 Agreement between Eastern banks in London (October, 1887)

	Resolutions agreed to at various times
1	The maximum brokerage to be paid on the sale of all Bills of Exchange, Interest Drafts Coupons. & Co.
2	The maximum brokerage to be paid on the sale of Indian Government Stocks
3	On the purchase of Indian Government Stocks, Bills of Exchange & Co., no brokerage shall be paid
4	The rate of discount to be allowed to the Drawees or Acceptors on all Documentary Bills retired before maturity
5	The buying rates for Bills on India, Burmah, and Ceylon are to be based on the minimum rate at which Council Bills are alloted each week
6	The minimum amount of reduction from the minimum rate of allotment in fixing the buying rate for 30 d/st bills on India, Burmah, and Ceylon
7	On each Wednesday, after the Tender for Council Bills, the Banks shall fix the maximum buying rates for Bills on other places by common agreement
8	Interest Drafts and Bills are fixed at the differences between the buying rates for Bills on the East at 30 d/st and at other terms
9	The buying rates for forward outward bills on all places in the East shall be not higher than the fixed current rates at time of purchase
10	The rates fixed for the purchase of bills on India, Burmah, and Ceylon, shall be binding for one week. The rates on other places may be changed by common agreement at any time
11	The foregoing rules regarding the buying rates for bills shall not be applicable either to Bank Bills or Indian Bills
12	Minimum commission to be charged for the simple collection of Bills and remittance of proceeds
13	Returns of all bills, or for documents without Bills, on India, Burmah, and Ceylon, on which advances are granted in London, must be in the Drafts of the Bank which made the advance
14	The rate of Interest to be allowed on Marginal Receipts
15	Bills of Lading hypothecated against Documentary Bills have to be accompanied by receipted Freight Notes
	Rules recommended to the consideration of the Eastern Agencies of the Contracting Banks
1	The time that Bills delivered to the Banks in the East to be paid for
2	That mixed bills shall not be bought at a uniform rate
3	That under all forward Contracts the time during which the Sellers shall have the power to deliver, shall be limited to a period of one month

Source Summary of Resolutions agreed to at various times by the Manager of Eastern Exchange Banks in London, and in force on October, 1887 (drafted by Chartered Bank), HSBC Group Archives

branches in agreement of 1887. Therefore, we can say that the agreement of 1887 formed the basis for the agreement of 1909. It implies that the mechanism of exchange business of these international banks did not undergo any significant changes in these two decades. Yet the contracting banks limited to British international banks in 1887, Comptoir d'Escompte de Paris, the only non-British international bank operating in

Asia did not participate.[30] On the other hand, the agreement of 1909 was contracted by both British international banks as well as non-British international banks. One of the plausible explanations is that the influence of non-British international banks was much stronger after 1900s and the agreement would not be effective without their participation.

The agreement between these international banks comes to a turning point in 1887. Firstly, they made a formal agreement. Secondly, they formed a cartel to prevent competition among them in setting price for bills of exchange, the core business of international banks. McLean mentioned in his letter dated 25 November 1887 that "all the Banks here arranged the rates for Council Bills & Outward Bills every Wednesday". The minutes of the Mercantile Bank Board of Directors meeting on 30 August 1887 also confirmed that the international banks were working in accord in determining the interest rate of advance bills.[31]

The cartel between banks was mainly subjected to business engaged in London. For the business transacted at trade ports in Asia, it was negotiated by respective managers working there. HSBC and Chartered Bank agreed to work in accord in London, the Straits and Hong Kong in the 1890s.[32] Although we know little about the details about the cartel agreement, undoubtedly the cooperation between these two banks had been extended to a larger area as time passed. This was likely to give rise to an oligopoly in the exchange market between Asia and the West.

5 Conclusion

One of the salient features of British international banking in Asia before 1914 is the strong financial linkage between Asia and London. With the development of global telegraph communications and the continued fall of silver, how to control exchange risk and maintain a smooth flow of funds were challenging issues for international banks in the 1870s and 1880s. The development of the London Office of HSBC showed the path of how HSBC coped with these problems.

Firstly, it saw a remarkable growth between 1875 and 1881 in both foreign exchange and deposit-taking business. The expansion of exchange business proved the conventional view that HSBC took away much of the exchange business from other international banks operating in Asia when their business had deteriorated and indicated that HSBC was in a more advantageous position in dealing with the fall of

[30] McLean to Jackson, 25 November 1887, MP.

[31] "The Hongkong and Shanghai Bank and National Bank of India having given notice that they are prepared to advance on goods outwards at 6%, returns being made in their Bank's Bills, it was Resolved: that this Bank should follow their action in this matter" (Minutes of Mercantile Bank, 30 August 1887, HSBC Group Archives).

[32] H. M. Bevis, manager of Shanghai branch, wrote to David Jackson, manager of Yokohama branch of the HSBC, in a letter dated 27 January 1896, that, "…that the Chartered Bank and ourselves are working in accord in the Straits, we also do so in London and Hongkong, so I think it will be to our mutual advantage if we can arrange to do so in Japan" (Shg 72, HSBC, Group Archives).

silver. Secondly, export bills purchased in Asia increased at a faster rate than those purchased in London as the annual bill receivables increased three times while the annual bills purchased increased only two times between 1875 to 1881. A possible explanation for this is that HSBC faced more competition in London than in Asia, probably because of the higher profitability in the former market. The competition among banks in London may explain why both silver currency bills and interest bills were used in parallel in export trade finance. Despite of the bank's consistent efforts in hedging exchange risks, it was difficult to avoid that completely, particularly, at times when silver price fluctuated violently. This eventually led to the formation of a cartel by international banks and that as a matter of course paved the way for prompting interest bills to be the sole export bills used. This enabled the banks to shift the exchange risk from the banks to importers in Asia and maintained the stability of their business. Finally, it is noteworthy that the access to City of London enabled London Office to respond to the increase demand for funds brought by the changing environment of exchange business.

By the end of the 1880s, HSBC has established an unwavering position in international capital movement between East Asia and Britain with the pivotal role being played by the London Office. It financed about 40% of imports of Britain from Asia in 1881. On the other hand, in regard of exports from Britain to Asia, it financed more than 30% of those to China and more than 40% of those to Japan. Consider the fact that London Office also supervise the operations of other branches in Europe and the USA, it could be said that the financial services provided by the London Office was indispensable for the development of trade between Asia and the West.

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Chapter 7
French International Banking: A Historical Survey

Kazuhiko Yago

Abstract This chapter aims to present a historical overview of French international banking, focusing mainly on its activities in Asia. French international banking was the incarnation of the performances of the Paris market and the French economy. Paris as a financial center was strong enough to attract capital from European centers, although Paris market could not develop essential functions, such as acceptances, to become a truly global market. The governance and decision-making structure was the core of the strategies of French international banks; their profit depended on branch networking and operation selection; and the latter indexes often urged change in governance at French banks. The French international banks could not maintain their branch networks, especially in Asia, and they had to rely on British banks and the London market. French banking overseas was inferior to British banking by size and access to the credit. On the other hand, the banking in the French colonial empire was in a certain degree successful, which accumulated a huge reserve out of its colonial business. Finally, the chapter would propose three subjects expected in the future on the historical study of the French international banking: the function of acceptance and discount market; a biographical study on the lower management of the banks, notably branch managers; and the local financial practices in Asia.

Keywords French international banking · Paris Financial Center · Acceptances · Profit · Branch networking

1 Introduction

This chapter aims to present a historical overview of French international banking, focusing mainly on its activities in Asia. Adhering to an orthodox definition of the word *history*, this overview refers to the *historical facts* of the banking business and its background, as well as to the *historiography* of French banking overseas.

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Two outstanding works have provided retrospective insights on the subject. One by Alain Plessis, which defined the activities of French international banks in close relation to the role played by the Paris financial center: the financial center was likened to "a turntable" which could export and import capital, and the development of such financial centers was measured by the number of banking locations both spreading outwardly and concentrating inwardly. Putting French international banking in the context of concurrence among the financial centers, Plessis concluded that "Paris had never been a durable financial center with a magnitude comparable to that of the City of London" and that large French banks did not play "an international role comparable to large banks in Anglo-Saxon countries or even to the German banks" (Plessis 2004, p. 4, original in French). In other words, French international banking was the incarnation of the performances of the Paris market and the French economy. However, another historiography by Hubert Bonin presented a different view, concluding that "French imperial banking could not have been conceived without the other imperial banking systems, due to the fact that French bankers engaging in overseas business worked intimately with their counterparts, correspondents and refinancers in other places" (Bonin 2015, p.34). The contrasting differences of the above two major works, one by Plessis, who held a view of *concurrence*, and another by Bonin, who held one of *collaboration*, derive from the definition of international banking: Plessis depends on the *international banking* concept espoused by Geoffrey Jones (Jones 1990), while Bonin stresses the *Imperial Banking* notion backed by David-Kenneth Fieldhouse (Fieldhouse 1973).

Upon the foundation of the above excellent surveys and other related works, this chapter tries to provide some points missing in previous overviews and to propose a different approach to the history of French international banking. Concerning the historical background, mainly developed in Plessis's work, our central question is if the historical background conditioned the micro-strategy or vice versa. As for the micro-strategy, we try to shed light on governance and profit structure, along with branch networking and operations of the international banks.

2 Historical Background: International Banking in the Paris Financial Center

A methodological antagonism between macro-condition and micro-strategy has perpetuated a "chicken or egg" type controversy for some time in economic history. In the case of French banking, this "which came first" debate has long been likened to the "chicken" story, which insisted that the particular international position of the French economy defined the particular strategy of French banks: Relatively modest economic development and high savings rates led French banks to carry their deposits overseas instead of investing them in domestic industries; relatively high gold and silver reserves in the Banque de France, and the positive trade balance with Anglo-Saxon countries, gave the Paris market a special position among European markets, to mitigate the repeated crises of the gold standard during the nineteenth century; strong state intervention and regulation over the market made the banks more state-friendly than their international counterparts, and as a result led French bankers to less ambitious strategies (Lévy-Leboyer 1977; Plessis 2004).

The above story, supported by solid archival studies, seems invincible. However, we were able to find a couple of loopholes in the structure of the above view, helped by recent works on international banking: The studies focus on international banking in the Paris financial center.

It was well known that Paris, as a financial center, could not overtake the supremacy of London market (Bonin 2005). However, the explanations regarding the Paris market's position are varied: Plessis, in the above-cited, pointed out an inevitable weakness in the Paris market in the long run, due to the balance of payments deficits, declining value of French franc, and too much state intervention (Plessis 2004). On the other side, Plessis also judged Paris as "a brilliant second" (Plessis 2005). The judgment by Plessis was echoed by Cassis, who noted that the Paris market's competitive advantages owed to the "size, diversity and influence of its main financial institutions" as well as "the importance of the Paris Bourse" (Cassis 2006, pp. 101–107). As for the evolution of the Paris stock market, the struggle between the over-the-counter secondary market (*coulisse*) and the formal market (*parquet*) is noteworthy. The monopoly of trade by the official *parquet* had been a target of protest from the *coulisse* free market, and finally, a compromise was achieved by legal measures set in 1898. Since then, the Paris financial market has enjoyed "benefits from the twin advantages of the *coulisse*'s dynamism and the *parquet*'s security" (Cassis 2006, p. 107). A recent study stresses the strength of the Paris market in a longer perspective than previous studies (Quennouëlle-Corre 2015). Paris was weaker than London but strong enough to attract capital from European centers.

On the other hand, once we consider the activities of banks in the market, a point of view slightly different from the above "strong or weak" argument would emerge. As stated by François Gallice, what the French banks in London sought was "an independence over the British market to reduce to a minimum the cost of all the refinancing" (Gallice 2003, p. 507, original in French). The influence of French domestic banks over the Paris Bourse was also of importance: A study on the financial studies unit of the Crédit Lyonnais, the largest deposit bank in France during the gold standard era, discovered that this unit (*Service des Etudes Financières*) played an essential role in collection and analysis of sovereign risk data, to become "a kind of mood-setter in the Paris market" (Flandreau 2003, p. 20). Similar activities must have happened among the foreign banks in Paris, where 18 foreign banks and 13 multinational banks conducted business in 1913. In fact, the total number of those overseas banks in Paris, which was 31 in total, was second only to the London market, which had 37 foreign banks and 25 multinationals (Cassis 2016, p. 303). The point here is whether those foreign banks in Paris, together with the French domestic banks, exerted influence over market practices and urged the evolution of the market toward becoming "stronger" or "weaker."

Regarding the influence of foreign banks, the example of the Russo-Chinese Bank relating to the above outcomes of the Paris *parquet* and *coulisse* attracts our attention (as we shall explain in more detail later on in this chapter, this bank was not a mere "foreign" bank but an amalgamated bank with French and Russian capital). While the official *parquet* market maintained its monopoly over the raising of Russian bonds in Paris in the late nineteenth century, the Russo-Chinese Bank quickly developed its activities in the Paris branch: The Paris branch balance sheet total in 1900 only represented 9.07% of the bank's balance sheet total, whereas in 1901, the rate amounted to 10.51%, and two years later in 1903, it doubled to 20.39%, to make the Paris branch the largest foreign branch for the bank (Yago 2012). In other words, the evolution of the Paris Bourse in favor of Russian bonds supported the growth of the Paris branch of this bank, notably their acceptance operations. In fact, the most important operation in the Paris branch of the Russo-Chinese Bank was the acceptance of the bills sent to Paris market (Yago 2012). For the "chicken or egg" argument which we have been discussing here, the final question would be if this development of operations by foreign banks suggested the rise of the Paris acceptance market, and if the French banks developed their acceptance operations to attract foreign bankers. The answer was negative: Paris as a financial center could not develop essential functions, such as acceptances, to become a truly global market. According to a classic work by Gilbert Guenser, the reason why Paris could not grow the acceptance market to a satisfactory size was that the pre-WWI franc was not a gold currency by law, and that French banks, including its colonial banks, had to depend upon sterling bills and the short-term credit network provided by foreign banks (Guenser 1938, p. 162). To sum up, the Paris market was not always "strong," and not always "weak": The market laid an egg to attract foreign bankers, especially in the late nineteenth century, but the egg was unable to grow up to become another large chicken that developed international operations, such as acceptances. Further study on this aspect of market-banking operation is yet to be done.

3 Micro Strategies of French Banks

We ask four questions on micro-strategies of French banks in the international field: Who governed French international banks? How profitable were they? To where did they extend their branch network? And what did they do at their overseas branches? The four questions are interconnected: The governance and decision-making structure was the core of their strategies; their profit depended on branch networking and operation selection; and the latter indexes often urged change in governance at French banks.

To deal with the above questions, three types of banks have been grouped into the following sections: (1) Deposit banks (*banque de dépôts*), which developed their international networks, represented by the Comptoir National d'Escompte de Paris (hereafter CNEP): Originally founded in 1848 as the Comptoir d'escompte de Paris, the bank founded its first branch abroad in Shanghai in 1860, with the support of the Second Imperial Government of Napoleon III, which was seeking to establish a foothold in Asian trade. The branch was the first overseas branch that a French bank opened in a foreign area. After its bankruptcy in 1889 due to illegal speculation, the bank was re-founded as the CNEP (Bonin 1992; BNP Paribas 2011). (2) Colonial banks, represented by the Banque de l'Indochine: founded in 1875 as a Bank of Issue in the colony of Cochin China, the bank also acted as an investment and commercial bank. The branch network of the Banque de l'Indochine spread from Saigon and other cities in the colony to the wider areas of Eastern Asia, including Hong Kong, and (3) Internationally amalgamated banks, on which we shall focus on the Russo-Chinese Bank: This bank was founded in 1895 on the initiatives of the Banque de Paris et des Pays-Bas (Paribas), an investment bank (*banques d'affaires*) on the French side, and the Saint Petersburg International Commercial Bank on Russian side. Headquartered in Saint Petersburg, the Russo-Chinese Bank aimed to finance Russian trade as well as investment, particularly in China. We shall also refer to the cases of other banks which belong to the above three categories.

3.1 Who Governed the French International Banks?

In the narrowest sense of the word "governance," which means "ownership," the French banks had a variety of owners. The major deposit banks were incorporated companies with limited liabilities. Since no banking laws were stipulated in France until 1941, those incorporated deposit banks, from the late nineteenth century to the beginning of the twentieth century, were under control of corporate law. There was no special legal framework to supervise banking. The founders of those deposit banks were the *hautes banques,* traditional personal bankers acting internationally in Europe, as well as merchants and industrial entrepreneurs. Investment banks were another type of bank that conducted international business and were also owned by the *hautes banques.*

Who were the *hautes banques*? They were personal bankers who had settled in Paris by the early nineteenth century, originating from various financial centers in Europe, such as Geneva. They were of protestant or Jewish origin, maintaining dense networks internationally. Eight banking houses seemed to have been in operation in Paris at the end of the nineteenth century, headed by the house of Rothschild, and followed by other minor houses, including Hottinguer and Mallet (Cassis 2010, p. 104). Their operations had been the brokerage of government bonds and private issues, developing into large-scale overseas investment. As personal and family businesses, their activities were quite unknown, although recent studies revealed some of their historical footmarks (Feiertag 2011). From an international perspective, ownership by the *hautes banques* made French international banking exceptionally network dependent, compared to the large listed banks of Great Britain and Germany.

The *hautes banques* were also powerful in their ownership of colonial banks. They were founded by the French government for the sake of the imperial management but often controlled by the above Parisian personal bankers. The example of the Banque de l'Indochine is typical due to the fact that founding shares were divided equally into two groups of banks, one the Crédit Industriel et Commercial, another the Comptoir d'escompte de Paris (later CNEP): Each group held 8000 shares, in which a considerable part was distributed, officially or unofficially, to several groups of the *hautes banques* (Gonjo 1993; Meuleau 1990). For the internationally amalgamated banks also, the presence of the *hautes banques* was impressive: In the case of the Russo-Chinese Bank, the biggest share in founding capital was held by the Saint Petersburg International Commercial Bank (12.67%), followed by the CNEP (9.96%) and Paribas (7.47%), while the *hautes banques* (Hottinguer, Stern, Hoskier and Rothschild) together totaled 11.26% (Yago 2012). It was after WWII when the French state's influence through the nationalization of banks would increase: Before WWII, and more particularly before WWI, it was the *hautes banques* which were at the center of ownership among French international banks.

Enlarging the scope of what the word "governance" means, from "ownership" to "control" and "decision-making," the influence of the *hautes banques* over French international banking demonstrates a different picture: The deposit banks, which developed their branch networks overseas, as we shall describe later, would squeeze the foreign branches in the late nineteenth century and concentrate their business on domestic areas and some colonial spheres. The decision was taken without intervention of the *hautes banques'* owners. The deposit bankers' administration did not even follow the government's intention to develop branch networks to support colonial trade. On a lower level of the banks' organization, i.e., the foreign branch directors, the "governance" of the owners as well as the top managers was weak: Some of the branch managers conducted speculative business outside the direction of head office. As for the Banque de l'Indochine also, the administration was physically distant from the two large banks that had ownership, and the Parisian administration was far from the governance of local branches as well. One overview clearly defines the Banque de l'Indochine as a "free standing company," as formulated by Mira Wilkins (Kobrak 2016; Wilkins and Schröter 1998). Dozens of anecdotes from the far eastern branches of the Russo-Chinese Bank tell us, for example, of risky transactions on the silver market and illegal trade with local government officials. It is also noteworthy that many of the French international bank's foreign branches were headed by personnel of non-French origin, often German, moving from one bank to another (Yago 2015). As has been formulated about French banking in general in Bouvier's classic work, the governance of French international banking was characterized by "heterogeneity," "internationalism," and "concerns for enterprises" (Bouvier 1973, p. 196, original in French).

3.2 How Profitable Were French International Banks?

Let us first compare the size of French international banks by their asset totals (Fig. 1). Major deposit banks almost doubled their asset totals from 1889 to 1913, while Paribas, the *banque d'affaires*, as well as the Banque de l'Indochine kept their balance sheet total relatively small. Figure 2 demonstrates a rough picture of the French banks' profitability from 1889 to 1913. Taking rate of profit over paid up capital, which is

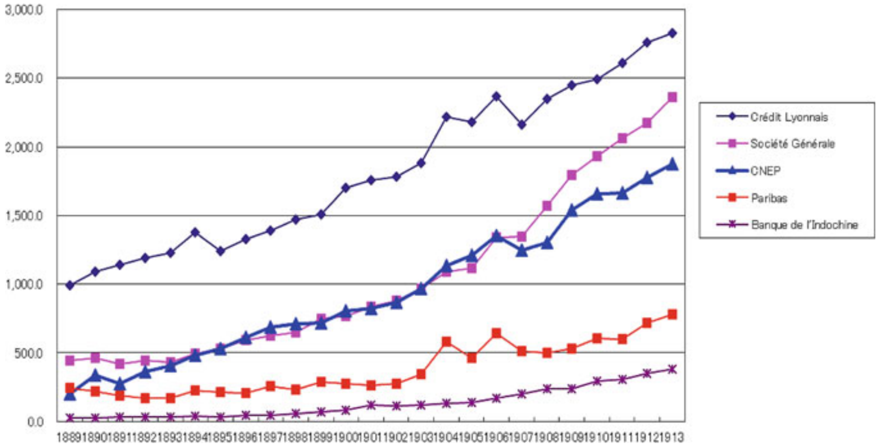

Fig. 1 Major French bank's balance sheet total (1889–1913, million francs) (Bouvier et al. 1965)

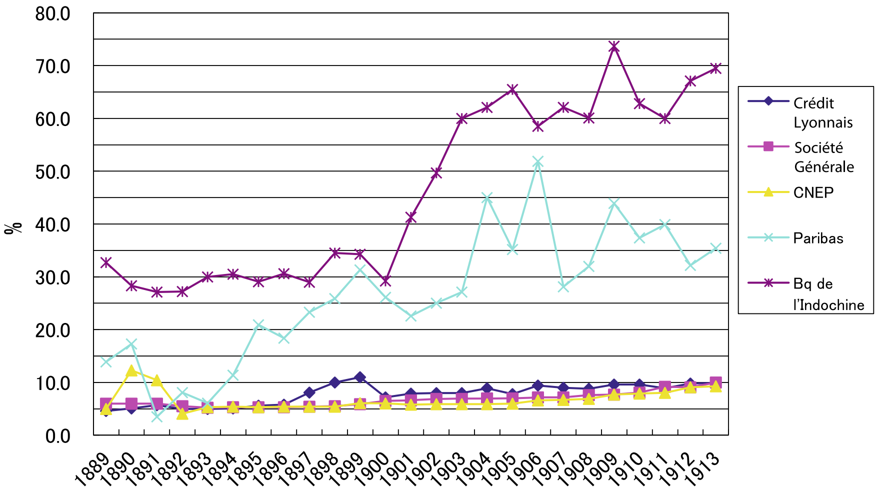

Fig. 2 Major French Bank's rate of profit over paid up capital (1889–1913, %) (Bouvier et al. 1965)

a benchmark like the ROE, the Banque de l'Indochine sat at the top with a high rate of approximately 30% at the end of the nineteenth century to over 60–70% before WWI. In second place was the *banque d'affaires* Paribas, with an almost similar trend of rate of profit. Other deposit banks, namely the Crédit Lyonnais, the Société Générale, as well as the CNEP, were below 10%. A slightly different view emerges from Fig. 3, which shows the rate of profit over asset for these banks. Using this ROA criterion, Paribas had 4–7% at the beginning of the twentieth century, followed by the Banque de l'Indochine. The deposit banks always recorded under 2%. The

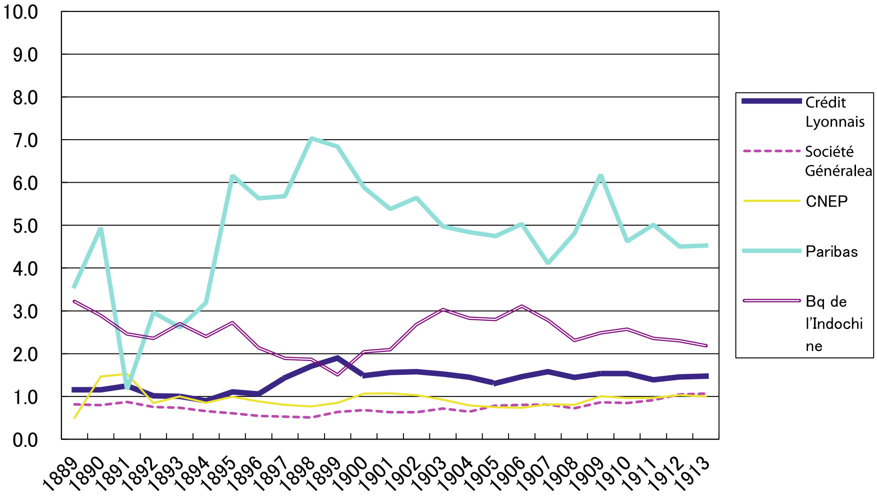

Fig. 3 Major French Banks' rate of profit over asset (1889–1913, %) (Bouvier et al. 1965)

two profit figures above, at any rate, illustrate that the *banque d'affaires* and colonial banks were exceptionally profitable. The deposit banks held large amounts of capital and assets but their turnover was relatively small, due to the costs of their branch networks, at home and abroad. International banking operations appeared for these deposit banks naturally as a heavy burden, when compared to their low rate of return. The CNEP's withdrawal from Asian business after 1895 could be explained from the above low rate of return for deposit banks.

More precisely, which operation was the most profitable in the international field? Let us present examples from three types of international banks.

First of all, the deposit banks: the CNEP, the deposit bank operating overseas, could not generate enough profits from its overseas operations. Unlike the colonial banks or amalgamated international banks, such as the Russo-Chinese Bank, the CNEP had no right to issue notes. The chances for investment abroad were also limited, when compared to those of the investment banks like Paribas. However, annual reports in the late nineteenth century revealed that the most profitable branch overseas of the CNEP was the London branch: in 1894, the London branch was honored as "one of our most profitable institutions," and still "maintained the glorious top rank of all the branches" in the following year (CNEP, "Rapport presenté par le Conseil d'Administration du Comptoir National d'Escompte de Paris," exercises 1894, 1895: original in French). On the other hand, performance of the Asian branches, represented by the Shanghai branch, was unsatisfactory. One correspondence issued in 1897 by a government agent concluded that, due to violent upheaval among the imperial powers in China, the benefits expected for the CNEP were extremely low (Archives Economique et Financière, Ministre des Finances, B0031260, Annexe à une lettre de la Banque de l'Indochine du 9 décembre 1897, Note concernant la création d'une Agence de la Banque de l'Indochine dans un des ports de la Chine). Maintaining a branch in the Far East turned out to be an expensive and ineffective business for a domestically based deposit bank like the CNEP.

As for business in London, one interesting example witnessed in London branch of the Crédit Lyonnais attracts our attention as a case of comparison: The London branch was founded in 1870. After increasing its capital in 1887, Henri Germain, the founding president of the Crédit Lyonnais, demanded the rates of dividends be raised to 3% for the London branch, but the branch itself estimated it to be only 2%, given that the portfolio and "on call" business had only made a return of 1.9% since 1884. The very point which attracts our attention was that the London branch did not follow the president's orders: Instead of strengthening other more profitable businesses in the London market, the branch enforced its discounting operations and carried out lending on clients' accounts, in order to maintain the branch's high level of liquidity (Gallice 2003). This exemplifies a certain independence of the London branch of the Crédit Lyonnais and its source of profits, as well as the branch's unique strategy seeking reserves and liquidity, not short-term profit.

Secondly, colonial banks represented by the Banque de l'Indochine: the bank recorded a high rate of profit, earned most of it from issuing operations and local investment: estimating from the round figure of operation, which incarnates the origins of profit, the weight of discounts to total assets was 22.3% in 1875, growing to 44.36% in 1885, but decreased to 29.4% in 1895. However, other operations increased more rapidly than the discount: The value of bills discounted in 1900 was 2.21 times as large as that in 1890, while lending operations recorded a value 2.38 times larger in the same period, and the issuing reserves were 4.65 times larger. A quick shift of operations to note issuing and industrial lending made this bank more profitable than in previous periods, when trade was a major source of revenue (Gonjo 1993, pp. 372–373).

Finally, the Russo-Chinese Bank as an amalgamated international bank: Profit earnings for the Russo-Chinese Bank demonstrated an almost similar feature to that of the Banque de l'Indochine. Taking 1897 as an example (when the CNEP Shanghai branch suffered from low profits), "benefits from money and materials" gained 38.0% of overall gross profits, followed by "benefits from public debts" (28.3%) and "commissions and benefits from exchange operations" (17.9%). Between head office and its branches, representing four major offices (head office, Vladivostok, China, Paris), the most profitable area was China with a surprising 64.9%, followed by Vladivostok (18.9%) and head office (14.1%), with a tiny sum at the Paris branch (2.1%). A similar distribution of profits by head office and the overseas branches was witnessed in 1903: The only exception in this year was that the Paris branch generated 10.83% of the bank's profits (Yago 2012, p. 158). As the Shanghai branch of the Russo-Chinese Bank was the only note-issuing branch of the bank, it was natural that the branches in China were the most promising ones in terms of benefitting this amalgamated international bank.

To conclude the profit analysis, French international banks enjoyed high benefits from issuing notes and local investment, while the benefits from finances derived from trade were low, especially in Asian business. The above differences according to the source of profit explain the high rate of profit for the colonial banks and internationally amalgamated banks with issuing functions, as well as the low rate for deposit banks, which had to run their domestic business at high cost.

3.3 Where Did They Extend Their Branch Networks?

French banks' overseas implantation was relatively of minor size: In 1913, British banks had about 1300 establishments overseas, while the French, as a whole, had only 500 (Plessis 2004). However, a different picture emerges with a closer look at each bank: the Crédit Lyonnais had eight branches abroad (besides the agents in the French colonial empire) in 1878 and 20 in 1913, which was more than all the other European banks (Cassis 2003). The following section describes the evolution of overseas branch banking of French banks in a chronological order.

The first branch overseas was launched by a deposit bank. The Comptoir d'escompte de Paris, the forerunner of the CNEP, was the first French bank to establish a foreign branch, which was located in Shanghai, in 1860. The branch network was soon enlarged to Hong Kong, Yokohama, and Saigon, although these branches would experience complex mergers: The branches in Hong Kong and Yokohama were closed in 1877 and then re-opened as representative offices in 1884; the Saigon branch was transferred to the Banque de l'Indochine in 1875, the year in which this colonial bank was founded; after the collapse of the Comptoir and the re-foundation by the CNEP in 1889, the oldest Shanghai branch was assigned to the Russo-Chinese Bank in 1895; the above re-opened Hong Kong office was, in the end, released to the Banque de l'Indochine. In Europe, on the other hand, the Comptoir established its London branch in 1867. In 1889, when the former Comptoir was rebuilt into the CNEP, the bank was maintaining nine overseas branches, namely in London, Bombay, Calcutta, Shanghai, Melbourne, Sydney, San Francisco, and two others in Madagascar. The CNEP maintained its branch network even after the inter-war period (Bonin 1992). Recent studies on other deposit banks as well as a *banque d'affaire* Paribas (today BNP Paribas) are also of importance for comparison (Bonin 2006; Bussière 1992; BNP Paribas 2011).

What about the branch networks of the Banque de l'Indochine and the Russo-Chinese Bank? The Banque de l'Indochine, as a colonial bank headquartered in Paris, started its branch services in Saigon and Pondicherry, right after that bank's establishment in 1875. The bank expanded its branch network to Haiphong, Hanoi, Noumea, and Phnom Penh in the 1880s and 90s. The Hong Kong branch, as referred to above, was obtained in 1894, to be followed by the Shanghai branch in 1898 (Meuleau 1990). The official mission of the Banque de l'Indochine was to be a bank of issue for the French colony in Indochina, but its sphere of operations spread outside the colony. As for the branches of the Russo-Chinese Bank, its overseas network repeated quick expansion and contraction: in 1898, three years after its foundation, the Russo-Chinese Bank opened a branch in Paris, four branches in China (Shanghai, Beijing, Hankou, Tianjin) with two offices, a branch in Japan (Nagasaki) with two offices in Yokohama and Kobe. In 1902, the Chinese branches numbered

14, and the Japanese branches grew to three. After the defeat in the Russo-Japanese War (1904–05), the branch network encountered a considerable change: In 1907, of the 14 Chinese branches, two were temporarily closed, but one new branch was established in Hong Kong. The three Japanese branches were kept running, while Russian domestic branches increased from 14 in 1902 to 27 in 1907. Moreover, in this year, the bank established branches in Bombay, Calcutta, and San Francisco. When the bank was dismissed and reorganized into the Russo-Asiatic Bank in 1910, a considerable number of foreign branches were closed or downgraded to representative offices (the Hong Kong branch remained unchanged), and the new bank re-enforced its domestic business. The most remarkable change brought about by the new Russo-Asiatic Bank was the closing of the Paris branch and the opening of the London branch (Yago 2012).

Two cities were crucial in the above branch networking of French international banks in Asia: Hong Kong and London. In fact, the three banks above successively established their branches in Hong Kong.

Why was Hong Kong so important? In the late nineteenth century, Hong Kong was a pivot point of trade for French interests via the Cochin China colony, i.e., the market where the confluence of two currents of trade occurred: rice exports from Indochina to China on one hand, cotton products' imports from the British colonial empire to Indochina, on the other. Moreover, the cash transferred from Saigon to Hong Kong by the Banque de l'Indochine to deal with the above trade settlements in Hong Kong had been exchanged in two ways: one by the purchase of Mexican silver in Hong Kong and the other by purchase of trade bills in Hong Kong and Singapore in order to transfer the funds to Europe (Meuleau 1990, Gonjo 1993). One anecdote symbolizes the role of the Hong Kong market and the role played by a branch manager of the Banque de l'Indochine in this financial center: The branch manager, in 1897, was suffering from lack of funds in the branch, due to repeated monetary crises and the long-term decline in the price of silver. By the time of the opening of the Hong Kong branch, the Banque de l'Indochine head office had distributed a sum of 25,000 lb sterling to the branch, but the funds were almost exhausted. The branch manager sent an emergency letter to the head office, as well as a request to the Haiphong branch for a bailout of funds. The Hong Kong branch manager often held meetings with the concurrent manager of the Hong Kong Shanghai Banking Corporation, as well as the Shanghai managers of the Russo-Chinese Bank and other international banks (Archives Historiques du Groupe Crédit Agricole, Banque de l'Indochine, DSE 9/9, correspondences, succursale de Hong Kong, le 14 fevrier 1895; le 11 mars 1897). As Hubert Bonin summed up, a "relay of imperial banking" took place in these Chinese cities (Bonin 2002).

What about London? Of the three banks mentioned above, the CNEP maintained its London branch, but the Russo-Chinese Bank, as well as the Banque de l'Indochine, did not open their offices in London at the beginning: The Russo-Chinese Bank conducted their acceptance business at the Paris branch, and the Banque de l'Indochine as a colonial bank headquartered in Paris, had no right to settle in London. As referred to above, the acceptance business was critically important for the international banks conducting trade finance, and the Paris market once "dreamed" of competing with the City of London (Plessis 2005). The trajectory of the Russo-Chinese Bank's branching from the late nineteenth century to the beginning of the twentieth century, leaving Paris and moving to London, was the incarnation of the position of those two competing international financial centers.

3.4 What Did They Do at Their Overseas Branches?

Activities of the French international banks at overseas branches have been recently revealed. Here, in this section, we shall focus on "trade finance" activities on the one hand, and "local investment" on the other. In discussing the three banks above (CNEP, Banque de l'Indochine, Russo-Chinese Bank), we shall also refer to other banks' overseas operations.

The Comptoir d'escompte de Paris, established its London branch in 1867, which was, as explained above, one of the most profitable overseas branches of the period. The main business of the branch was that of trade finance, to settle the bills sent to London and remit the funds to clients in Paris. The CNEP also opened offices in Liverpool and Manchester, two industrial cities, in 1895. In contrast, the Asian branches of the CNEP suffered from harsh competition as referred to above, and the Shanghai branch was closed in 1895, when the bank enlarged its business in Great Britain. A contemporary analyst explained the background of this Asian business as follows: The European banks in China dealing with silk trade followed British practices, lending purchasing funds to local merchants in cash. The cash supplied was of more than a six-month term, which represented the period from the harvest of cocoons to the produce and selling of silk goods. The local merchants, after selling their products, would draw bills for remittances from London or Lyon. Then the banks, receiving the bills, required acceptance of financial bills to the correspondent European banks on the security of these bills for remittances (Berrogain 1916). As a result of this close connection with local merchants, the concurrence among the European banks became more difficult and the profits which the French banks could draw from local trade was at a low level (Archives Economique et Financière, Ministre des Finances, B0031260, Annexe à une lettre de la Banque de l'Indochine du 9 décembre 1897). As for the investment business of the CNEP, the branches in the French colonial empire were of importance. The Madagascar branches, for example, supported the railroad venture project driven together by the CNEP and the Madagascar Colonial Company, to amortize the total of the past expenses in 1907. The Madagascar branches opened seven more offices in the colony in 1910 and collaborated in the foundation of the colonial issue bank in Madagascar (CNEP, "Rapport presenté par le Conseil d'Administration du Comptoir National d'Escompte de Paris," exercices 1907, 1913). The close relation of the deposit bank's foreign branches with the colonial administration was one of the cases expressing the move of the bank's business, from trade finance to local investment.

To compare the overseas activity of the CNEP with the other deposit banks, detailed studies on Crédit Lyonnais's foreign branches give us a concise view

(Desjardins et al. 2003). Branches in Egypt, for example, consisted of major branches in Cairo and Alexandria with other agents, occupying 5.68% of overall profits of Crédit Lyonnais and 28.33% of all the foreign branches of the bank during the period 1878–1914. The former rate (the branch's profit over the whole of the bank's profit) decreased to 4.84% during the inter-war period (1915–1939) while the latter rate (the branch's profit over all of the foreign branches of the bank) scored 90.86%, which means that while all the foreign branches suffered lower profits, the Egyptian branches enjoyed exceptionally high earnings. The trend changed during and after WWII (1940–1956), the former rate recovering to 8.25%, but the latter branch's contribution still as high as 62.88% (Saul 2002). As for the bank's branches in Constatinople, Smyrna (Izmir) and Jerusalem, or the other European branches in Spain, Portugal, Norway, and Switzerland, the trend of profit varies, as well as the role, played by the branches in the Crédit Lyonnais's international network (Plessis et al. 2003). Further studies on the bank's Asian branches are to be developed.

The composition of the items in assets of foreign branches of the Crédit Lyonnais demonstrated a considerable difference with that of the mother bank. A clear example was given for the year 1895: While total assets of the bank were first occupied by portfolios (44.3% of the total asset) and then by current accounts (27.5%), the foreign branches held the most of its assets by current account lending (32%), followed by portfolios (22.2%) and guaranteed lending (20.3%) (Lescure 2011, p. 235). In other words, in the case of the Crédit Lyonnais, the foreign branches showed more balanced performance among titles of assets, i.e., banking activities in lending and investment, than that of the head office and the bank's average: A heavy weight of portfolio of the head office, most of which were short-term bills, the incarnation of a prudent liquidity policy inherited by the bank's founder, Henri Germain. Recent studies on other deposit banks as well as on *banque d'affaires* are now revealing the various behaviors of these banks' overseas branches (Bonin 2006; BNP Paribas).

The activity of the Russo-Chinese Bank's foreign branches demonstrated a move almost similar to the CNEP's case. For the trade finance operations, represented by amount of the bills discounted and the bills receivable, the Chinese and Indian branches were the most important. Along with their profitability, the trade finance of the Russo-Chinese Bank was mainly dealt with by those branches in Asia. More precisely, the trade finance operations of the bank's Asian branch maintained two avenues of transaction, one by the transaction of bills by the bank itself, another the similar operation through its correspondent banks. An example of the Shanghai branch, the biggest one in Asia, gives us a concise picture. In 1902, around 60% of the bills sent outward for collection of funds for the selling of goods from China to the counterparts had been addressed to the Russian head office in Saint Petersburg, followed by CNEP's Lyon branch, with 27% of the total bills (6.7 million taels) in question. The bills for the former head office represented the tea trade, the latter, the cocoon and silk trade. On the other hand, the operation with the corresponding banks was active with CNEP's Calcutta and Bombay branch as well as with Glyn, Mills, Currie and Company, the British clearing bank. Such trade finance operations, however, would decrease quickly after the Russo-Japanese War: With the dissolution of the bank in 1909, the Russian international bank closed its Shanghai branch, which meant to give up its proper route of remittances and settlements, and to deepen its reliance on the London market and banking (Yago 2015).

After the withdrawal of the CNEP and the Russo-Chinese Bank from the Asian sphere of branch network, it was the Banque de l'Indochine that maintained its branch network in the area. Of these branches, Saigon was the largest in terms of business; however, the foreign branches outside the colonial empire recorded a considerable increase of total services: The weight of the foreign branches, mainly in China, which occupied 31.8% of the bank's service total in 1897, doubled their share to be 67.3% in 1913. Thus, the foreign branches concentrated more on exchange operation than the colonial branches. In this colonial bank's case, also, branch activity evolved from trade finance to local investment, but the shift was witnessed after WWI, later than the CNEP and the Russo-Chinese Bank: The Banque de l'Indochine, especially its Saigon branch built a close relation with the colonial government, which began to enforce its policy aiming the "development" (*"mise en valeur"*) of the Indochina colony during the inter-war period. Starting with the agricultural lending, the Banque de l'Indochine collaborated with the local infrastructure investment. However, the Banque's contribution to the colonial development was limited, since the Paris administration put more priority on constructing a high level of reserve funds, rather than lending actively to colonial infrastructure (Gonjo 1993). Following the CNEP and the Russo-Chinese Bank, the Banque de l'Indochine also withdrew from the fierce concurrence over trade finance, but in a different way.

As for the activity of the other banks in French colony, detailed studies have been recently published. Two works attract our attention. First, Nobutaka Shinonaga achieved a monographic work on the Banque Industrielle de Chine, established in 1913. The Banque Industrielle de Chine was a joint venture of French and Chinese entrepreneurs, backed by the governments of France and the Republic of China. After WWI, the Banque demonstrated a surprising growth of assets and its entrepreneurial activity, which became as large as that of the Banque de l'Indochine. The Banque Industrielle de Chine also established a branch network in important cities like Beijing (1913), Shanghai (1914), Hong Kong (1917), Hanoi (1918) as well as Vladivostok (1919). However, the newborn Banque could not gain any support from the Banque de l'Indochine and the major Parisian deposit banks never participated in the ownership and administration of the Banque. The Banque functioned as a center of enterprise enlarging business in China, but an exceptional extension of this conglomerate bank lead to the political scandal and finally to the bankruptcy (Shinonaga 2008). Second, an article on one private bank, the "Banque privée, commerciale, industrielle et coloniale Lyon-Marseille," established in Lyon in 1898, also deserves attention. This bank played an important role as a hub of industrial enterprises doing business in Indochina, backed by industrial network in Lyon and Marseille (Klein 2013). Major deposit banks as the Crédit Lyonnais, the CNEP as well as the Société Générale participated in founding of the Banque privée, but did not take their proper risk in local investment. The role of this local private bank was thus assimilated to the "free standing company" as had been the Banque de l'Indochine. Above two works describe particular features of the French banking behavior in Asia: The major banks did not take risk (in the case of the Banque Industrielle de Chine) or were distant from local business (in the case of the Banque privée); the banks were active as a center of information and ownership for the enterprises working in Asia, than the proper commercial bank; they had to retire from trade finance and concentrate in local investment (in vein, in the case of Banque Industrielle de Chine).

4 Conclusion: Three Dichotomies to Go on Beyond the "Strong or Weak" Story of French International Banking

The following dichotomies merit attention to conclude this overview. First of all, *market* versus *banks*: Paris as a financial center was not large enough to attract foreign banks and to support the French banks overseas. The French banks, on their part, were not strong enough to manage the acceptance market. However, this conventional view could be slightly revised, looking at independent banks' activity in the Paris market as well as in the City of London.

Secondly, *trade finance* vs. *investment*. The major deposit banks, the amalgamated international banks, as well as the French colonial banks, were the "losers" of concurrence over trade finance. The French international banks could not maintain their branch networks, especially in Asia, and they had to rely on British banks and the London market. In fact, the CNEP returned to their domestic branch banking, the Russo-Chinese Bank, as well, and the Banque de l'Indochine and the other colonial interested banks turned to investment business in various ways. In trade finance practices, however, not only the concurrence referred to above but also collaboration with foreign banks were important, as had been revealed from the corresponding network of the Russo-Chinese Bank or the information network of the Banque de l'Indochine. Local investment, on the other hand, was not successful and even led to a collapse as was the case of the Banque Industrielle de Chine.

Finally, *international banking* vs. *imperial banking*. French banking overseas was inferior to British banking from the former international banking point of view, by size and access to the credit. On the other hand, the banking in the French colonial empire was in a certain degree successful, as had been the case of the Banque de l'Indochine, which accumulated a huge reserve out of its colonial business. This explanation seems to be too simple. The three cases in this chapter demonstrated that they were to some extent "international" but finally returned to "imperial" spheres. Some literatures even refer to "free standing company" to explain this (limited) success of colonial banks. However, not all the international banks were "free standing." The Banque de l'Indochine was under strong ownership of the Parisian banks and the French government; on the other hand, the Banque Industrielle de Chine was "free standing" out of the control of the major deposit banks, but finally went bankrupt. The success and failure of French international banking ought to be explained in detail, not only by the above frameworks.

What kind of subjects and approach would be expected in the future on the historical study of the French international banking? We would propose three: First, to approach the function of acceptance and discount market, especially in Paris but also in foreign markets like Hong Kong and Shanghai (Bonin 2012). The market practices are still unknown, and further, archival study is expected to shed light on the size and the actors of the market. Second, the subject would be a biographical study on the lower management of the banks, notably branch managers (Lescure and Plessis 2007). As has been presented above, the managers of the foreign offices were often foreigners, and they had built a strong network among them, outside the control of their proper administration. Thirdly, local financial practices in Asia would be a fascinating subject. In Asia, the French banks had to work with compradors and local clans, who were subtle enough to resist the Western powers. They were also strong politicians dealing with local interests and the ethnic world. New findings in above subjects from new approaches would enrich our knowledge on French international banking, to go on beyond the conventional "strong or weak" story.

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Chapter 8
French Trade and Banking Footholds in Hankow/Wuhan Challenging British Hegemony up the Yangtze (1903–1920)

Hubert Bonin

Abstract French companies and banks (mainly *Banque de l'Indochine*) undertook to sustain the momentum launched by the French State, its diplomacy and various business lobbies in favour of the promotion of economic patriotism in China. The coalition of the Consulate, the branch *Banque de l'Indochine* and trade houses transformed Wuhan/Hankeou into a hub to draw regional commodities and to introduce French goods. Bankers there had to cross military and political events, to resist competition (HSBC, from Shanghai), and to take part to the development of the concession, in the midst of the Yang Ze Kiang valley. They had to get embedded into the connections of Chinese business (through the comprador and trade houses) to avoid the risk of asymmetry of information, to broaden their capital of knowledge about the business opportunities in the area, and to get used to the local uses of payment. Their intimacy with the few French trade houses having offshoots there favoured the development of substantial banking stuff, despite the dependence from the Shanghai marketplace and from the treasury funds of the *Banque de l'Indochine* branch downstream.

Keywords *Banque de l'indochine* · Wuhan/Hankow/Hankeou concession · Yang Tzekiang · Trade banking · Trade houses · Risk management

In the massive port cities of Shanghai and Hong Kong,[1] the French business and banking communities were very active, and bridgeheads had been established in Tianjin and Guangdong by French businessmen and bankers around the First World War Bonin (2020a). Conversely, the river port city of Hankow was a remote marketplace in upstream Yangtze, far from the core interest of French imports, exports and money flows. Though this study presents a challenge, it will serve to complement our survey of the initiatives, successes and limitations of French economic

[1]Bonin (2003, 2012).

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expansion in China in the first half of the twentieth century. It will reveal French entrepreneurs' ability[2] to resist and overcome the competition and to join the group of major stakeholders.

At the same time, we shall also sketch the outlines of the "open economy" which took shape in the more remote regions upstream. But, as elsewhere, here too events conspired to hamper the development of the Hankow port city: the revolutionary movement and the subsequent civil war, the tensions created by the division of Republican China and various social and political crises in Shanghai which hindered trade between Hankow and its outlets abroad.

The issue revolves around the ability of the French to establish, in the name of economic patriotism, a bridgehead upstream of the Yangtze in the face of the strong British hegemony in trade, transport and banking.[3] In this text, we intend to describe the foundations of French trade and banking in Wuhan, the methods followed to garner market share and weave networks of relationships with foreign and local merchants and the role played by compradores and intermediaries in penetrating the Chinese business community. We will analyse French bankers' skills portfolio including the ability to control and avoid risks, the insertion of managers and middlemen into the Wuhan–Shanghai axis regarding money and commodity operations and their growing FOREX operations.

Finally, we shall also assess the diversification in their clientele in order to determine how these French bankers succeeded in becoming stakeholders in the river port city's business over and above merely serving the interests of the French business community. In order to assess the "transnational" dimension acquired, we shall scrutinise the balance between French, non-French (German, Belgian, etc.) and Chinese business in the growth of French bankers' assets. This will also help profile the "imperial", "global" and "local" banking models. As bank regulations political and economic circumstances, and the conditions of risk management changed in 1920, we will focus on only the first seventeen years of the *Banque de l'Indochine*'s branch.

1 How Important Was It to Be Embedded in Hankow?

Though there is no doubt that, in this twenty-first century, being active in Wuhan represents a key advantage as the city is rich with more than 9 million inhabitants, supervises a fast-developing region in terms of energy, industry and services with key French interests like Peugeot-PSA (automobiles), Valeo (car equipment), Alstom (electronics) and Carrefour (retail), business prospects there were rather dim in the first decades of the previous century: the neighbourhood lacked substance, the range of commodities and minerals was limited and the trade along the Yangtze river was restricted to local exchanges and specialties—a far cry from the scale of the "big" business and trade that had already taken shape downstream around Shanghai. Moreover, the region had just emerged from the Boxer uprising, which had been

[2] See Bonin (2019).

[3] Lee (1989), Weber (1997).

supported there by the reformist and nationalist viceroy himself, till he set limits to its spread.[4]

1.1 Hankow: Towards an "open" Economy

The core issue lays in the hope that Hankow[5] could turn into a regional hub with an "open economy", that the Yangtze axis grows to have adequate substance for exports and imports and last, that Hankow enters the network of Asia's "modern" hubs.[6] Two things were required: increasing trade between Hankow and Shanghai on the domestic front and improving foreign trade and transforming the region into a major outlet for exports to Europe, Japan or the USA (like Tianjin), be they of high value (Guangzhou silk) or not. Apart from the port city itself, trading could be extended into the Hunan province, where opportunities in mining, railways or commodities could be exploited to fend off Russian and German ambitions.

There already existed before the First World War a 500 km railroad connecting Hankow to Chángshā/Tchang Cha (capital of Hunan province, with 500,000 inhabitants). The latter was a hub for collecting commodities and goods bound for the northern river shipping connections, which made Hankow an important transshipment point linking rail to river traffic. A second track was laid connecting Hankow to Beijing in 1903–5 with the aid of Belgian (and French) finance, rail equipment and public works (the station in Hankow, *Han kou da che men*, was designed by a French architect).[7] Subsequently, it was bought over by the State thanks to the "Peking-Hankow Railway Redemption Loan Agreement" settled on 8 October 1908. These connections helped open up the area, with immediate effects on the degree of competition, services offered and a reduction in interest rates (from 12 to 10% in 1907 according to the *Banque de l'Indochine*) which stimulated trade and led to the development of the Hankow marketplace. Lastly, the building of the section linking Hankow and Guangzhou commenced just in the 1910s.

One of the issues faced by bankers and traders was weaning the Hankow market away from its dependence on Shanghai, its main rival. Traditionally, contracts (exports, boarding, financing) were signed in Shanghai, where various stakeholders had been active for decades, leaving nothing for the bankers upstream except as loan recovery managers. Though gradually the diversification of service equipment increased value addition in Hankow, only some 20 m taels were "engineered" in Hankow of the total 26 m exported in the first half of 1911 because a quarter of them were processed in Shanghai and only transited through Hankow warehouses and harbour as transshipments.[8]

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[4] Kelly (1963).

[5] See Rowe (1984).

[6] Gipouloux (2011a, b).

[7] See Hentenryk (1972, 1977).

[8] Archives of the Banque de l'Indochine, historical archives of Crédit agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 27 July 1911 [BIC, then onwards].

Table 1 Exports of rural commodities through Hankow in the first half of 1911 (million taels)

Total value	26	
Sesame seeds	8	40% towards The Netherlands, 17% to France, 13% to Germany, 11% to Italy
Cow hides	4.5	French firm Olivier, Italian Chinese Export
Wood oil	4.5	Hegemony of US firm Gillepsie
Cotton	2.1	For Japan and other Chinese provinces

Archives of *Banque de l'Indochine*, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, *rapports-bilans semestriels*, 27 July 1911

1.2 Which Resources?

Foreign interests were mainly focused around tea, with Russia and Tibet as its main clients and France not really involved. Still, the cash generated increased imports and helped French traders find outlets. It was only slowly that a wider range of goods and minerals began to figure in the list.

1.2.1 Rural Resources

The staples traded indicate the port city's rural roots. It had become an outlet for commercial agriculture thanks to enterprising and open-minded peasants and craftsmen. Hides topped the list: cowhides (78,805 piculs[9] in the first half 1906 and 109,856 in the first half of 1907), buffalo hides (22,539 and 18,694) and goat hides (3,024,183 and 2,370,171 units). As Chinese trade intermediaries grew in size and scope, so did the opportunities for bank loans. The goods traded included vegetal and animal tallow (for candles and machinery), wood oil (for the manufacture of linoleum in Germany and USA, varnish in the USA), pig bristles, sesame seeds (110,000 tons in 1908), gall nuts (to Germany and the USA), musk, jute (Tables 1 and 2).[10]

The growing trade increased the need for credit, both for exporters as well as importers: equipment was imported for modernising villages (motorised winnowers for seeds, hydraulic presses and dryers for hides, steam heaters and tanks for oils and fatty substances). Because of growing competition and lower profit margins, the cotton business gave way to the export of beans and horse beans towards the end of the 1900s. France emerged as a major outlet for a few commodities like sesame seeds and cowhides (sesame seeds came from Hebei also), which constituted a peculiar

[9] A picul (or tam) was a traditional Asian unit of weight, defined as "a shoulder-load", "as much as a man can carry on a shoulder-pole". As for any traditional measurement unit, the exact definition of the picul varied historically and regionally: In imperial China and later, the unit was used for a measure equivalent to 100 catties, or around 60 kg (Wikipedia).

[10] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 9 August 1907.

Table 2 Major trading houses for the export of rural commodities in 1908

Cowhides (piculs)		Sesame seeds (tons)
Carlowitz	45,000	15,000
Melchers	20,000	20,000
Arnhold Karberg	9000	26,000
Racine-Ackermann (French)	3500	4000
Olivier (French)		3000

And also: Schweitzer, Fuhrmeister, Kolkmeijer, Evans Pugh, *Societa Coloniale Italian*a, Meyer, Theodore Rawlins

Table 3 Leading commodities exported from Hankow in 1915 (in piculs)

Sesame seeds	1,770,025
Beans and broad beans	1,407,137
Wood oil	602,128
Cotton	461,112
Vegetal tallow	210,884
Cowhides	227,026
Ramie and jute	203,162
Gall nuts	57,449
Buffalohides	14,961
Pig bristles	22,801

Source Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, *rapports-bilans semestriels*, second half of 1915

aspect of this stage of the global economy at the start of the twentieth century (see Table 3).

1.2.2 Black Tea

Hankow's biggest export was, of course, black tea with 278,426 piculs (556,852 "half-chests" or strong boxes) exported in 1906 and 350,709 piculs (701,418 "half-chests") in 1907. But as Russia was the biggest client of "brick tea" (till the end of the 1910s), *Banque de l'Indochine* had to scramble to prevent *Russo-Chinese Bank*[11] from assuming leadership in that field. Being the centre of the Chinese black tea trade, Hankow attracted Russian tea traders who set up factories in the early 1860s to manufacture "brick tea", made from tea dust. Three of the four brick tea factories in Hankow were owned by Russian businesses: SW Litvinoff and Co (known locally as Shun Fung), Tokmakoff, Molotkoff and Co (Hsin-Tai) and Molchanoff, Pechanoff and Co (Fu Cheong). Shipments from Hankow went via steamers directly

[11] See Crisp (1974), Shinonaga (2012).

Table 4 Exports of tea from Hankow in 1908 (lbs)

To Nikolayevsk	8,797,700
To Vladivostok	7,430,500
To Odessa	4,423,200
To London	1,489,000
To Okhotsk	850,000
To Saint-Petersbourg	600,400

Source Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, *rapports-bilans semestriels*, 1 February 1909

to Odessa and St. Petersburg or were transported overland on the Tea Road via Mongoliaand Siberia to Moscow. It finally succeeded in grabbing some market share from the leading bank and seducing a few tea traders such as Trading C°, Theodor and Rawling and *Popoff Frères* (1915) (Table 4).

1.2.3 Imports

Imports at the start of the century were still stagnant as the smaller Chinese traders were used to dealing directly with their Shanghai suppliers. As elsewhere, cotton cloth and spun cotton were imported for local craftsmen, joined later by velvet cloth. The progress of copper, iron, cement, machinery, oil and railway equipment illustrates the gradual diversification of industry, the extent of the public works undertaken in the area and the complementarities between Hankow and Shanghai as the doors to upstream Yangtze. As soon as the "open economy" spreads across the countryside and into the merchant cities of Hebei and its neighbouring provinces, imports increased rapidly, transforming Hankow from a hub for collecting commodities to a dispatching centre for imported goods, equipment and material. Some houses even specialised in this import trade which served as a lever for the issue of commercial paper, managing bills of exchange and remittances to clearing houses in Europe.

1.3 Competition as Elsewhere

But despite their high ambitions, the French had to face the real balance of power. For instance, the French shipping company linking Hong Kong and Shanghai had to stop its river services upstream in June 1911 and to yield to the *China Navigation Company*'s hegemony on the Yangtze… British and German houses[12] had long established themselves all along the river and its corresponding relays, the Yellow Sea[13] and the Eastern Sea of China. Their concessions in Hankow were also much better

[12]Dean (1972), Edwards (1970).

[13]See Warner (1985).

entrenched compared to the French, especially as the "hongs"[14] exerted great influence from their base in Shanghai: Jardine and Matheson and Swire and Butterfield had been very active in Hankow since before the First World War.

The British HSBC and the Russo-French *Banque russo-chinoise* had preceded *Banque de l'Indochine* upstream of the Yangtze: the former as the arm of British interests all across China and the latter due to the heavy tea purchases by Russian traders in the provinces. "No doubt that given equal rates, traders prefer certain banks, and for generations the Hong Kongand the *Russo-Chinoise* Banks have grabbed the lion's share. But it is also because they too reciprocated in kind, advancing the sums required for purchases. We too can build ourselves a solid clientele. We are the only one, apart from the Hong Kong Bank, to have locally available funds—a big advantage in the eyes of the traders here. We just need to set right the misconception, still widespread, that we only deal with the Chinese, and to convince the Europeans that we would welcome them with the same facilities offered by other banks".[15]

The Japanese business community had established itself with ardour, with a federative trade house, a shipping company, and the support of its *Yokohama Specie Bank*.[16] In 1907, there were around 1,600 Japanese in Hankow. They were influential at the court of the viceroy of Hubei/Hou Peh and even managed to convince him to commence investing in modern city equipment—a rarity in those days. There were two types of Chinese banks: small and local and the larger, medium-sized ones (about 25) mostly from Chansi or one of the nine "mandarin" banks linked to the Administration. Gradually, they gained in size and stability, as was proven during a sharp monetary crisis in Hankow in October 1907: "Thanks to the resources gained over the past two to three years, Hankow had a large reserve of liquid capital. Chinese houses have made great strides in creditworthiness".[17] This explains why *Banque de l'Indochine* lagged far behind the stakeholders of the Hankow market in 1907: there was a long way to go! (Table 5).

2 Banque de l'Indochine at the Core of French Business in Hankow

With Hankow turning into a "pioneering front" for French businesses, we will follow the emergence of French pioneers there and see how they built themselves a strongly rooted community in that developing market.[18] The opening of the *Banque de l'Indochine*'s branch in 1902 (made autonomous in January 1904) epitomised the strategy drawn by French experts in Paris. Let us recall that the institution managing

[14] Keswick (1982), Blake (1999), Jones (1986).

[15] Archives of BIC, historical archives of Crédit agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 9 August 1907.

[16] Tamaki (1990), Ishii (1994).

[17] Ibidem, 15 February 1918.

[18] Meuleau (1990) .

Table 5 Current accounts by banks in Hankow (in thousand taels) (end of June 1907)

	Cash (deposits)	Loans to Chinese bankers
Yokohama Specie Bank	150	500
Russo-Chinese Bank	80	700
Deutschasiatisch Bank	500	200
Chartered Bank	200	?
HSBC	400	1,200
BIC	75	1080
		290 (for the account of the Saigon branch)

Source Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, *rapports-bilans semestriels*, 9 August 1907

the currency and business banking in Indochina was assigned the mission of opening branches there in return for the renewal of its status in the colony, a task. It took up in earnest at the turn of the century[19] to help the French compete against British, German, Japanese, Russian and also later, American trading, shipping and banking firms. The *Banque de l'Indochine* branch[20]—headquartered then on Dubail Street, today *Dongting Jie*[21]—acted as the spearhead for an efficient penetration of French interests into Hubei province. Like its counterparts, the French concession[22] (set up in 1896 within the framework of the Treaty Ports[23]) was located within the settlements area in Hankow (*Hankéou* in French) along the river Han, close to the two other areas of Wuchang (*Outchangou*), on the right side of the Yangtze, and to Hanyang on the other side of the Han River.

2.1 A New Business Community

The branch was a cornerstone of the French concession which, in 1910, was headed by a French Consul who looked after 30,000 inhabitants spread over 361,000 km^2. It was relatively isolated, with a letter to Paris taking 21 days through Siberia or 40 days via the Suez Canal. "Imperialism" was very much at stake with the French flag fluttering proudly over the newly built *Hôtel municipal* and visits by warships like the *Dupleix,* which came in June 1911 for the inauguration of the building. The manager of BIC, like the consul (for example, Joseph Réau,[24] consul and head of

[19] Gonjo (1985), Bonin (1994a, b).

[20] The building itself is today the Victori and Café.

[21] Along the name of a battle in 1854 where Chinese troops won over foreign ones during the Taipin war, as if anti-imperialism had to be proclaimed against a past when the Powers had predominated.

[22] Rihal (2007).

[23] Murphey (1970), Fairbank (1970).

[24] "Last evening, I dined at the *Banque [de l'Indochine*], with the O'Neil, the Brandt and Bondeuf. This evening I will dine with the Brandt and tomorrow with the Hervy", 10 June 1912, in Philippe

the French Municipality from 1910 to 1916 and Lecomte), entertained lavishly both formally and informally to consolidate their rooting and foster solidarity now that a business "bourgeoisie" had taken shape. The *Cercle Gaulois* and the *Hankow Club* (which managed the race rack) were also social watering holes. Like in all French concessions, business "big wigs" (heads of trading and real estate houses) were the main stakeholders of the settlement (Brandt, O'Neil, Lehman, etc.). Though partners in economic patriotism, their continued success depended on their ability to respect basic management rules and good practices. The fragility of some of them, especially in the face of recessions, prevented the concession from attaining to some degree of permanent economic stability.

2.2 Human and Financial Resources

Thus, the survival of this little French community depended on no small measure on the quality and competence of the *Banque de l'Indochine*'s branch manager. Most had already acquired some experience elsewhere before moving to this job: Trouillet graduated from the Bangkokbranch to replace the Hankow branch's founder, Joseph Pernotte, in 1909. He brought with him Lehman (promoted to deputy manager in Saigon in August 1912) and Delaunay as deputies. The branch was given a credit line from Parisof one million dollars, complemented by advances from the Saigon branch (100,000 FRF on 30 June 1904) and further contributions from Paris, in addition to current profits. In 1908, 1.4 m FRF in capital and 7.8 m in cash advance helped the manager to achieve a breakthrough on the market. Sometimes he was also helped by his counterpart in Shanghai, where the availabilities were often abundant: for example, an amount of 14.6 m taels was lent (at 4% interest) in December 1916.[25]

3 A Dynamic Strategy: The French Offensive in the Hankow Region

The issue was well put by the first branch manager in 1907: "Are we [not] here to take an increasingly more active part in the business affairs knowing that, despite the present difficulties, they have a brilliant future? I remember how pained I was to see, some years back, how isolated our branch had become from any European business and looking, for all intents and purposes, like an old retiree in the middle of this young

Marchat,*Raphaël Réau, consul à Hankéou pendant la Révolution chinoise et la Grande Guerre, 1910–1916*, Paris, L'Harmattan,"Mémoires asiatiques", 2013, p. 112. On 12 June, Réau had dinner with the Brandt, the O'Neil and Lehman [the deputy-head of the Banque de l'Indochine branch]. "Lehman invited me to the bank along with the O'Neil, very nice", ibidem, 15 June 2012. Réau was promoted to Hong Kong.

[25] Archives of BIC, historical archives of Crédit agricole SA, correspondence and statistics from the branch to the headquarters, 439AH535, 30 December 1916.

and vibrant colony bursting with life and activity".[26] It was Pernotte, the branch manager (who would later leave *Banque de l'Indochine* to head the smaller *Banque industrielle de Chine*[27] and stir up what he felt were over-conservative mindsets) who spearheaded French entrepreneurship in the Yangtze region."Hankow has entered the industrial stage of its economic development. This will gradually open up major opportunities for European industries for the supply of all the material required by this growth. There is little doubt that, as elsewhere, here too the French industry will let itself be forgotten, stuck in its ivory tower, while the big English, German and American houses have already begun sowing the country with their agents and agencies. And, seeing the facilities offered by them–which sometimes border on sacrifice (as in the case of Borsig [German] for the pumps of Tan-San-Wan)–one has the distinct impression that they have realized the massive potential of the region and are prepared to fight tooth and nail. Meanwhile, our poor French houses, so timid and mediocre, are incapable of any sustained effort towards an as-yet far-off result".[28] An offensive strategy was asserted: "We must never hesitate to accept an operation without profit if it could result in luring other advantageous ones".[29]

3.1 Trade Finance and Commercial Banking

A dual strategy was to be deployed: "To prospect houses demanding credits for their export business at the expense of other banks, and managing bills to be discounted or paid for the account of houses with imports business".[30] Advances on bills amounted to £ 5.268 m in June 1909 [probably Shanghai£].

3.2 Advances Without Formal Collaterals

The export houses found a rapidly developing market in advances on bills: paid by them to their regional suppliers, pending the loading of these goods on ships. As collaterals, the goods kept in warehouses were scrutinised and checked by bankers, either for the usual warrants (registered in the books with documents) or for overdraft facilities or "advances on bills" which were less formalised, as they linked stocked goods and classical overdrafts without formalised pledges: "Loans against bills of

[26] Archives of BIC, historical archives of Crédit agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 9 August 1907.

[27] King (2008), Pernotte (1922).

[28] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 15 February 1908.

[29] Archives of BIC, historical archives of Crédit Agricole SA, correspondence and statistics, 439AH535, 5 April 1907.

[30] *Ibidem*, 4 April 1903.

exchange. We think that your bigger loans are all well covered by the merchandise specified in your statements and whose existence you have ensured by conducting regular visits and inspections".[31] In 1909, the branch took part in an agreement[32] between banks to tighten the conditions for loans: every check would be guaranteed by a formal "letter of linkage" and, at the end of each month, by a letter of recapitulation of the goods pledged. But competition forced banks to break away from this agreement and dabble in greater risk.

In any case, all this was not possible for tea because it required testing and sampling of the product and some heavy negotiations regarding price. "It goes completely opposite to the other goods such as hides, grains, oils, fats, fibres, etc., that is, all that we classify under the name 'general cargo'. For these articles, everything is done by 'forward' contracts in which the Hankow trader acts as the link between the entire set of Chinese sellers and their European buyers".[33] Risks increased with price fluctuations because compradores, who maintained relations with both European buyers and the local sellers, began speculating. Lastly, there were the risks of quality: "The goods we dispatch end up almost worthless: they lose in weight and quality, the hides have holes, the grains smell rotten, etc.".[34] Tense negotiations were undertaken between dispatchers, experts and arbitrators, with major losses at stake.

The advantage of this type of credit was the rapid recovery of the loan: immediately after the trade house had sold and transferred the goods on board. The turnover of the capital involved was supposed to be rapid—except when recessions in Shanghai or tides on the Yangtze blocked exports downstream. "The money invested as advances on bills to be delivered was reimbursed and turned over more than three times in the same semester. The goods involved did not remain, on average, more than a month and a half in the godowns".[35] Whatever the balance between security and commercial spirit, the takeoff of this line of products was rapid from the first years of the branch (Table 6):

Despite recurrent risks, *Banque de l'Indochine* had to admit Hankow's profitability. It became a key stakeholder of that region, with a wide range of clients (Table 7).

3.3 Forex Operations

Each *Banque de l'Indochine* branch dealt directly with FOREX operations not only because each was (relatively) free to add value to its cash treasury, but also because each had to anticipate the fluctuations of the half dozen currencies used and in the

[31]Archives of BIC, historical archives of Crédit Agricole SA, correspondence and statistics from the branch to the headquarters, 439AH535, 24 March 1914, 11 March 1911.

[32]*Ibidem*, 2 April 1909.

[33]*Ibidem*, 24 March 1914, 11 March 1911.

[34]See Footnote 27.

[35]Ibidem, January 1916.

Table 6 Amount of overdrafts on unpledged goods from the branch of Hankow (taels)

	Banque de l'Indochine's payments	Clients' repayments
1905	215,617	155,237
1906	859,510	785,062
1907	2,643,836	2,423,638
1908	7,214,616	6,750,797
First semester 1912	1,635,606	821,522

Source Archives of BIC, historical archives of Crédit Agricole, BE 1047, 439 AH 179, *rapports-bilans semestriels*, varia

Table 7 Major customers of the BIC branch in Hankow for advances on bills to be delivered in 1912 (taels)

German houses	
Schwarz Gaumer	151,314
Arnhold Karberg	88,768
Carlowitz	73,972
Melchers	3881
French houses	
Miffret	17,466
E. Bouchard	8186
Olivier	5023
Varia	
Mitsui Bussan Kaisha	59,498
New Chinese Antimony	17,556
Louis Göring	4251 + 192,760
J.K. Panoff	192,760
Alff	7815
Total	664,437

Source Archives of BIC, historical archives of Crédit Agricole, BE 1047, 439 AH 179, *rapports-bilans semestriels*, July 1912

price of gold and silver for its coverage operations. The branch manager sent orders by telegraph to his partners in Shanghai, Hong Kong, Paris and London. Bills of exchange to be discounted and mainly remitted (in Europe or Asia) opened doors to clearing flows also involving FOREX operations. The branch had to get rid of its currencies as soon as their amounts began posing some risk. Thus, in order to remain competitive, *Banque de l'Indochine* began to routinely buy and sell them on the Hankow market.

This trading of bills of exchange became a leading activity of the BIC branch. For example, in the second semester of 1907, it bought bills for 11.116 m FRF (compared to only 1.802 m in the second semester of 1906) and sold bills for 5.176 m (0.303 in

1906). It included the support of ten million on paper for direct exports—for trade between Hankow and other markets—supplemented by two million FRF negotiated with the houses using Shanghai for managing their exports.[36] "This paper had been supplied to us mainly by the principal houses of Hankow, whose patronage was eagerly sought after by all the major banks such as Arnhold Karberg, Carlowitz, Jardine Matheson, The Trading Company, etc." [37]

Losses and disappointing results alternated with massive profits. The manager struggled to balance the currencies against the risks. For example, in 1909, contracts to sell pounds in Shanghai and Tonkin were concluded in the Shanghai currency, with uncertainties on the value. In 1910, the temptation to jump on opportunities was fortunately curbed as the speculative positions could have threatened the branch: "It was due to this that we allowed our competitors to grab Carlowitz's FOREX contracts. As this house only dealt with big parcels, the fear of a lack of funds made us lose this business which, through interest on loans against bills to be delivered and FOREX profits, though small, was always profitable".[38] Still, the branch's capital of expertise continued to increase, and the little boom preceding the WWI was marked by sound FOREX operations on bills of trade, with an amount of 12.1 m FRF in the first semester of 1914 (compared to 8.4 and 11.112 m in the first and second semesters of 1913, respectively). The branch acquired export paper, consisting of bills to be drawn on European banks as representative of the exporting trade houses and the profits from these FOREX operations amounted to 28,974 taels in the first semester of 1914.

4 Widening the Customer Base

Step by step, the small team (three Frenchmen, a comprador and their employees) succeeded in luring customers and established the institution in Hankow's market.

4.1 Belgian Customers

Belgian companies, pioneers in the region, were the logical first target: getting them would quickly build *Banque de l'Indochine*'s reputation and help its entry into the local network. Railways had been useful tools to prospect fresh markets: French interests were involved in railway projects in the wake of Belgian initiatives.[39] In the 1910s, French and Belgian interests had jointly managed the Lung-Tsing-U-Hai railway track, with bonds issued and capital raised in Belgiumand France, and Seynot,

[36] Ibidem.

[37] Ibidem.

[38] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, January 1911.

[39] See Hentenry (1977).

a Frenchman, as chief-engineer. BIC conducted business with Belgian Trading, a trading house hungry for credit on bills (for the export of hides).[40]

It provided major loans to J. K. Panoff, a Belgian firm from Brussels, which exported minerals (antimony) for its own plant or for importers in Anvers. From 1915, it also processed a part in the Seven Mile Creek foundry in the Russian concession.[41] BIC's total risks with the group attained 734,394 taels in 1914 (mainly advances on bills to be delivered, on goods, bills), almost 1 million in 1915 and 921,000 in 1918 (5.5 million FRF).[42] It also accounted for 70% of the loans to Chinese Antimony Company in 1910. Via the intermediation of the Paris merchant bank *MM. De Neuflize*, Panoff also found an outlet in France: "Major contracts with Stibium, Usines de Brioude, Compagnie La Lucette, Cookson, etc. which had been won through the intermediation of MM. De Neuflize were interrupted by the War. Large quantities of minerals have been detained in the ports of Lisbon and Alexandria. A part of it goes to De Neuflize and some other houses for which the operations had been conducted. Another part belongs to Panoff himself. His Belgian partner has asked his agent to pursue the restitution of this merchandise, on which there is considerable value addition".[43] L. van der Stagen came through during The First World War as Belgian Trading Cy's representative in Hankow and used the *Banque de l'Indochine* for imports.

4.2 Native Prospects

In 1889, Zhang Zhidong/Chang Chi Tung was transferred as Viceroy of Liangguang (Guangdong and Guangxi provinces) to Viceroy of Huguang (Hunan and Hubei provinces). He governed the province for the next eighteen years (till 1907) and called for big plants to open up the path to modernity. While he ended his tenure on a more conservative note, his successor, Tchao Tse Chouan, rekindled the reformist spirit. Despite the cash flow crisis lived through by the State cotton mills, it paved the way for *Banque de l'Indochine* to join the informal consortium of bankers providing them loans. That was the case for a cigarette plant (MAT), the Hanyan Plants (steel manufacturing, with 6,000 employees—from 1909 for *Banque de l'Indochine*, with collaterals on property documents), the Hupeh Cement Works (from 1912) and (in the French settlement) the Ching Long Flour Mill (from 1908/1914) set up by a group of Chinese investors managed by the French A. Brandt house—and the same for the Hankow Waterworks, a Chinese company (Sun). In 1910, Hanyang Steel benefited from advances on rails to be delivered to the Tianjin–Pukow railway, repaid through

[40] Archives of BIC, historical archives of Crédit Agricole SA, correspondence and statistics, 439AH535, 5 April 1908.

[41] Ibidem, 18 March 1914; 31 March 1915.

[42] Ibidem, 7 April 1918.

[43] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, July 1915.

remittances on London. Despite the offer for sale of the Ching Long Flour Mill in 1914, their production went on without any crisis with their banker,[44] which was not the case of Hupeh Cement, that was forced to close down in 1914 because of its Japanese creditors—but *Banque de l'Indochine* got back its advance thanks to a pledge on a cement stock.

Moreover, as it was practiced in other places, *Banque de l'Indochine* began offering advances in piastres to native bankers, with a risk on exchange (from 1907). It used its own godown in the building of its branch to store the goods pledged against these advances, but also rented other godowns (*Pao-Tong* godowns, since 1905). Prior to WWI, it relied on a comprador, Liu Sing Seng. Trustworthy connections were extremely important as Hankow had only just begun to introduce modern accounting practices and transparency, and local capitalism still lacked the scale: the "absence of strong indigenous houses presenting solid guarantees for credit and able to serve as intermediaries between the European trader and the Chinese retailer".[45] "The resumption of these operations since last September has been of considerable benefit for us. Moreover, we have transferred the short-term loans, whose flexibility is valuable for our cash balance, from Shanghai to Hankow." [46]

Like its fellow banks, BIC widened its trade network by dispatching imported goods all across the province and its neighbourhood: discounting paper spread deep into the countryside. Though profit per operation was meagre, the aim was to accumulate these quick returns to amortise the resources (deposits, advances from Paris) mobilised in such businesses: "Our branch itself absorbed some six million taels on average every year which, along with millions more brought by the other banks, disappeared in the Chinese hinterland or returned in part to settle import accounts. In any case, they came back to us in the form of francs credited to us in Paris only six to eight months later. This unavoidable cycle is the result of the unique conditions of this place (large number of imports) which requires a constant supply of funds to function".[47]

4.3 Credit to Import/Export Houses

The French bank did not hesitate to pick up business and credit opportunities among the challengers of French companies, mainly German and British competitors.

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[44] Archives of BIC, historical archives of Crédit Agricole SA, correspondance and statistics from the branch to the headquarters, 439AH535, 24 March 1914.

[45] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 9 August 1907.

[46] Ibidem, 20 July 1909.

[47] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, 1 July 1916.

4.3.1 German Trading Houses

German customers made a beeline to the *Banque de l'Indochine*'s branch, happy to extend their credit line for their overall trade. Their needs were high as they accounted for 30% of the overall Hankow trade in 1910. The branch was patronised by both modest (Schnabel-Gaumer, Lautenbach, S. Wurch, Kolmeyer and Rockstroh, etc.) and big (Melchers and Co since 1912) companies. Moreover, Carlowitz and Arnhold Karberg, both present in several port cities, frequented the branch with success before the First World War, getting credit to finance their imports in Europe, China and Hankow. They were very active in imports, purchasing cotton cloth in Manchester and selling them in Shanghai and Hankow. "It was to avoid the big risks run by the German houses when they extended to the Chinese very long credit lines that the importers of Manchester preferred going through the Germans as intermediaries".[48]

As in other provinces, they gave the British a run for their money, and the *Banque de l'Indochine* had to be involved, unless it wanted to miss the boat. In 1915, a report related *ex post* the extent of the German competitive spirit: "We have given our complete support to the French houses here. And after the disappearance of the Germans, all of them have made big profits. The commissions, which earlier had been below the improbable, have returned to normalcy. It was because the Germans had worked not so much to make money as to monopolize the market and destroy the competition at all costs".[49]

4.3.2 British Trading Houses

The 1910s were marked by the arrival of British customers like Harvey and Co, which used *Banque de l'Indochine* as their sole banker to finance their imports from Liverpool to upstream Yangtze: "This house only does imports. All of its credit lines opened in Europe pass through our hands. This type of business is not an immobilisation, but a continuous rolling to which we have set an upper limit. Every check is, so to say, a new business as it guarantees us new merchandise, and every payment becomes a part or full repayment of an earlier loan. This rolling also brings us forex business and presently, we have £17,000 in sales contracts".[50] Spunt & Rosenfeld, a house based in Shanghai, established itself in Hankow during WWI. In May 1916, *Banque de l'Indochine* bought large quantities of bills to be remitted on Shanghai. In the first semester of 1916, the firm accounted for a fourth of all cotton exports to Japan, financed through *Banque de l'Indochine* (1.4 m taels). "J. Spunt is a big house specialized in the cotton trade. It works for the Shanghai house and

[48] Ibidem, January 1916.

[49] Ibidem, July 1915.

[50] Archives of BIC, historical archives of Crédit Agricole SA, Lettres-bilans, from the headquarters to the branch, 439AH535, 19 April 1913.

settles our accounts from its discounts on Shanghai: 444,000 taels as loans against remittances in Shanghai at the time of the cotton harvest in September 1916".[51]

The powerful English house of Dodwell, which managed the tea business of the *Anglo-Asiatic* trading house in Hankow and which had the opportunity of granting overdraft facilities for the transfer of bills to Europe through the BIC's services, also joined the fray during WWI.[52] After 1915, Burtenshaw,[53] taking advantage of the German withdrawal, forged ahead, relying completely on the BIC's branch: he was the main importer of Belgian plate glass, and his boss was an important investor too, in *Pharmacie centrale*, Central Stores, *Patell Frères*, and a plant for carbonated water.[54] The firm amassed 421,000 taels[55] at the start of 1918, favouring advances on goods by BIC for an amount of 47,000 taels (2000 crates of window glass, lighting equipment and electrical appliances).[56] A few houses complemented this core set of clients. In 1914, the Swiss Louis Göring and his mining company (Göring-Laidrich/Wan Chen Chu) were treated as big clients for their tin export business. The China-Java Export Company was also accompanied in its development.

4.4 Privileged French Customers

A thorough analysis of the BIC's contribution to French interests is not possible, but there is no question that the French business community was a priority target. All six Catholic missions active in the area were clients (for their deposits of 37,253 taels in 1911) as was the concession's Municipality as regards its cash flow and some borrowings after 1911 (with a debt of 85,106 taels in June 1918). *Crédit foncier d'Extrême-Orient*, a Franco-Belgian financial institution linked with real estate investors in French concessions, borrowed in Hankow too (60,000 taels in June 1918). Though BIC had no monopoly and French firms were often also clients of HSBC, for instance, several houses approached it regularly, happy to use its connections to the main Chinese port cities and Europe.

Banque de l'Indochine also dealt with several local companies like Monbaron (1909), Adolphe Grosjean & Cie, Cossantelis Brothers (a Greek house from Marseille, active in Calcutta and Hankow) and A. Miffret—which financed its entire export of hides through BIC in 1912: "This house made great progress by dealing with Europe and America in its speciality of leather and hides using open and documentary

51 Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, January 1917.

52 Archives of BIC, historical archives of Crédit Agricole SA, correspondence and statistics from the branch to the headquarters, 439AH535, 2 April 1909, 13 March 1916, 12 September 1916.

53 Ibidem, 7 September 1917.

54 Archives of BIC, historical archives of Crédit Agricole SA, correspondence and statistics from the branch to the headquarters, 439AH536, 20 January 1918.

55 At this time, the tael was valued at seven francs.

56 See Footnote 53.

letters of credit. It uses the services of the International Banking Corporation for its business in the United States".[57] Hankow also hosted the offshoots of bigger companies that were active in several port cities such as Racine-Ackermann: "This house is extremely methodical and prudent and has done very well over the past few years. Its balance with us this semester attained 260,000 taels. It has since remitted 130,000 from HSBC and 130,000 in Europe".[58] The branch also worked with Olivier, the largest French trading house in China and its maritime neighbourhood: "This house too has done very well over the past few years. Originally established in the English concession, it has migrated to the free lands of Tachimen [Tai Chi Man], where the hide business is not forbidden, and has built there a first class establishment".[59]

On a smaller scale, the BIC branch also serviced retailers like the chemist Picca, clockmaker *Dubois* and the Italian food-store Cozzi (till 1916, when the Italian Chinese Import & Export bought it over), expressing the intimacy between the bank and daily life on the settlement. Established in Hankow, *Société franco-chinoise de distillerie* (set up in 1909 by Yao Foo Chen) became a permanent client, with advances on securities (1911) and overdrafts. For a while, the branch was in touch with Bouchard, the manager of a colliery. In Hankow as in other provinces, a few French entrepreneurs and investors tried (and often succeeded) in exploiting local mineral resources, even on a small scale.[60]

All things considered, *Banque de l'Indochine* satisfied the demands for a banking form of economic patriotism by actively supporting its French customers in the Hankow river port city. The First World War was an apex for this development, thanks to the temporary elimination of German competitors: "The French houses–notably Grosjean, Racine-Ackermann and Miffret–are presently passing through a period of unmatched prosperity. A string of businesses that have resulted in profits they could never have known without the disappearance of the German houses from European markets".[61] Meanwhile, *Banque de l'Indochine* kept its feet firmly on the ground, financing other foreign houses active on the Yangtze to an equal amount—if we focus on the special "credit product" available at the port that is, advances in blank, pending the issuing of formal bills (Table 8).

The *Banque de l'Indochine*'s Shanghai branch was a permanent commercial partner too. Both acted with a large degree of autonomy (except for a very few years). The Hankow branch used its cash treasury to purchase bills to be drawn on Shanghai through the Shanghai branch. The latter mobilised its own cash as deposits by its sister branch which managed some means of payment on a daily basis and,

[57] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, January 1917.

[58] Ibidem, January 1917.

[59] See Footnote 57 (Bonin 2020b).

[60] Archives of BIC, historical archives of Crédit Agricole SA, Lettres-bilans, from the headquarters to the branch, 439AH535, 11 April 1914.

[61] Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, rapports-bilans semestriels, January 1916.

Table 8 Breakdown of credit amounts of advances on bills to be delivered at the *Banque de l'Indochine*'s Hankow branch (in taels) in May 1916

French houses	
Racine-Ackermann	2,045,226
Grosjean	556,141
Miffret	446,817
Olivier	304,047
Sub-Total	3,352,231
Foreign houses	
Italian Chinese Import & Export	1,317,428
Spunt & Rosenfeld	1,067,931
Mitsui Bussan Kaisha	98,931
Panoff	627,212
Sub-Total	3,111,502

Source Archives of BIC, historical archives of *Crédit Agricole SA* , correspondence and statistics from the branch to the headquarters, 439AH536, 13 May 1916

more importantly, by organising the transfer of the amount of the salt tax collected in Hebei and its neighbourhood.

4.5 Banque de l'Indochine *Stirring Fresh Competition*

Banque de l'Indochine struggled to gain access to French and foreign companies active in these fields, and its progress was rapid: in fact, the opening of the branch filled a void and the Hankow trading community felt happy to have a new supplier of credit. In its own words, "these figures represent about one sixth of the overall exports, which is an encouraging result if we take into account the considerable part of HSBC".[62] The branch experienced several years of rapid growth, with 15% in 1908–1909 (after a recession) and a doubling of exports of hides in 1910. For goat hides only, the *Banque de l'Indochine*'s branch accounted for 47% of all loans in 1912, thanks to its client China-Java Export (with German interests) (Table 9).

As a sign of its competitiveness, *Banque de l'Indochine* succeeded in drawing a part of the bills discounted between Hankow and Shanghai for cotton exports: "Our purchases of discounted bills on Shanghai have more or less doubled following the establishment of Spunt and Rosenfeld in Hankow. It buys cotton and dispatches it to its Shanghai headquarters, replacing the Japanese houses which, till recently, had dominated these 15-day loan operations, the time to do the packaging, then replaced by term discounts of ten days on Shanghai".[63]

[62] Ibidem, 1909.

[63] Ibidem, January 1916.

Table 9 Part of *Banque de l'Indochine* in the financing of exports from Hankow

	Banque de l'Indochine in the first semester 1909 (piculs)	Total bank financing in the first semester 1909 (piculs)	Percent in the first semester 1909	Percent on the second semester 1909	Percent in 1915
Goat hides	330,000	2,138,000	15.43		
Sesame seeds	372,000	1,386,000	26.84	25	8
Beans	45,000	525 000	8.57	17	
Wood oil	18,600	269,000	6.91		0.5
Cowhides	17,600	132,000	13.33	14	14
Vegetal tallow	38,000	125,000	30.40	25	14
Ramie (China grass, also called Chinese plant or white ramie) (for fabric manufacturing)	7000	66,000	10.61		
Gall nuts	2400	21,000	11.43		3 or 4
Buffalohides	2900	20,000	14.50		2
Pig bristles	1380	6281	21.97	36	18
Cotton					8.5
Ramie and jute					2

Source Archives of BIC, historical archives of Crédit Agricole SA, BE 1047, 439 AH 179, *rapports-bilans semestriels*, 1909, 1910, 1915

5 Hurdles on the Path of Expansion

Several barriers had to be overcome in the course of a successful implementation of a developmental business strategy in Hankow.

5.1 *The Effects of the General Crisis of 1907*

Within a few years of its establishment, the *Banque de l'Indochine*'s branch had to face the turmoil caused by the severe recession that struck the USA, then Europe and last Shanghai and a few port cities. Exports fell in 1908, and the collapse of several firms in Hankow affected many banks, notably the branch of the *Russo-Chinese Bank* which was badly hit by the fall of its comprador—though the other banks were all repaid in that last case, except HSBC. *Banque de l'Indochine* had to curtail its advances, even though it could not give up on its weakened customers in the midst of the crisis. FOREX operations turned uncertain, with the bank and its clients having to bet on a revival in valuations which made the "situation difficult for our branch. On one hand, we cannot refuse FOREX to our clients who are themselves straining to guard themselves against the expected hike, and on the other, it is almost impossible for us to cover ourselves".[64]

5.2 Local Worries in the First Semester of 1910

Apart from the world's economic conditions, China was confronted with its own "regional" disturbances. In the first semester of 1910, several houses collapsed in Shanghaiand, by domino effect, in Hankow. The rapid expansion after the 1907/8 crisis led to over-deleveraged operations among Chinese traders, who had benefited from too many loans by mainly German houses and bankers. A few compradors, unable to recover their assets, fled (at China and Java Export). German houses had failed to implement the rules of loan balancing and the monitoring required on the quality and quantity of stocked goods. Some of them ended up with bad debts, which affected their bankers. *Banque de l'Indochine* itself declared immobilised loans to Fuhrmeister (13,000 taels) and Kolkmeijer and Rockstroh (76,000 taels, of which 20,000 for export of wood oil to the US). Fortunately, the branch manager had refused to extend FOREX credits to German clients.[65] But these claims were to load its accounts for a while.

5.3 The Effects of the Wuchang Uprising (1911)

A ferocious mini-civil war broke out in the area in 1911: the "Double Ten" insurrection (or Wuchang Uprising[66]) was launched by local revolutionary groups on 10 November against the Qing imperial regime—as in Guangzhou, it was nationalism against imperialism. Heavy fighting between the official army and the insurgents followed the flight of the Viceroy Rui Cheng: from 17 October to 1st December, the revolutionary army and local volunteers defended the city in the Battle of Yangxia against better armed and more numerous Qing forces commanded by Yuan Shikai. The latter seized Hankow (except the concessions) and Hanyan, but not Wuchang, as by then, the revolt had spread all across central China to Nanking (30 November) and negotiations led to an agreement which would eventually lead to the Republic (ushered in on 19 December after the Regent was deposed). All in all, it was one

[64]Ibidem, "Year 1908", 1 February 1909.

[65]Ibidem, 27 July 1910.

[66]Wuhan is known as the birthplace of the Xinhai Revolution, named after the Xinhai year on the Chinese calendar. There are several museums and memorials to the revolution and the thousands of martyrs who died defending the revolution.

month of hard infighting in the port city, two-and-a-half months of local war followed by a huge fire in November and the destruction of more than a third of the town. Even after that, anarchy prevailed as the Republicans could not maintain order, and regional trade came to a grinding halt.

Delegates of foreign settlements—including French consul Raphaël Réau[67]—succeeded in convincing the belligerents not to bomb them and to provide better healthcare to injured soldiers. Meanwhile, precautions were also taken in the form of French military ships with troops steaming up the Yangtze (the *Décidée*, then the *D'Aberville*). Troubles resurfaced when the Yan Shi Kay regime parted ways with their former revolutionary partners. Once again, purges and revolts rendered the trade roads insecure. *Banque de l'Indochine*'s major clients were badly affected: public works came to a halt affecting the tin mines of Louis Göring and the Hupeh Cement Works.[68] A mass of unpledged advances were suddenly frozen, leading the *Banque de l'Indochine*'s Paris headquarters to place its branch under the direct supervision of the Shanghai manager (1912 to first of July 1913). Numerous Chinese clients failed to repay their debt, and the guarantee shouldered by the comprador had to be committed. But he himself was short of funds, and his own debt amounted to 1,312,000 taels in 1916 along with the irrecoverable claims on his Chinese connections. But all things considered, the effect on the BIC branch was not severe, and business regained momentum in 1913–1914.

6 Conclusion: Was It Worth Investing in the Hankow Market?

It is always difficult to understand the strategic and financial mindset which leads companies to form developmental strategies, either in skill portfolios or in new regions. Grazing for bits of business in far-off regions might seem a shallow business model. The history of companies, the core of business history, is rife with questions like: was it worth committing so many human and financial resources to such petty commitments? As we can see (Table 10), the *Banque de l'Indochine* branch's return to Hankow did not even attain 5 percent of the total returns of the *Banque de l'Indochine*'s branches in 1916. In 1907, the capital (1,393,531 FRF) and the overdraft drawn on Paris (7,826,531 FRF), totalling 9,220,062 FRF, generated returns of 285,843 FRF over the two semesters of 1917, that is a ROCE (return on capital employed) of 3.1 percent, which is low considering the risks undertaken and the distance between the branch and banking hubs in China (Shanghai, Hong Kong), London and Paris.

[67]"Réau Raphaël", in Bensacq-Tixier (2003), pp. 469–471, Marchat (2013), Rihal (2013).

[68]Archives of BIC, historical archives of Crédit Agricole SA, correspondence and statistics from the branch to the headquarters, 439AH535, 13 November 1911.

Table 10 Returns of the major *Banque de l'Indochine* branches at the turn of the 1920s (percentages)

	First semester 1916	First semester 1919	Second semester 1919	First semester 1920
Indochina and Cambodia	44.6	50.9	47.3	41.6
Singapore	4.7	2.7	16.1	3.6
Paris	14.2	6.2	4.7	4.4
Total of China	23.6	22.8	17.4	18.5
South China (Guangzhou, Mongtze and Hong Kong)	11	9.2	11.2	5.6
Guangzhou	2.4	2.7	3	−5.8
Mongtze	5.3	5.3	6.2	3.8
Hong Kong	3.3	1.2	2	7.6
Shanghai	7.8	10.5	4.1	11.3
Hankow	**3.9**	**−2.2**	**−0.2**	**0**
Tien Tsin	1.8	5.5	1.9	2.4
Beijing	−0.9	−0.2	0.4	−0.8

Minutes of the Board of the *Banque de l'Indochine*, 25 October 1916, 29 October 1919, 28 April 1920, 24 November 1920

Losses at the turn of the 1920s negated the revenues. The capital allotted to the branch was almost swallowed by the losses that piled up in 1916–1920. So many bad debts had to be amortised and claims immobilised over several semesters. The manager was dismissed and operations were paralysed for four–five years. The customer base shrank because many of them found elsewhere what *Banque de l'Indochine* could not provide. It was a disappointing time.

Still, business and banking histories have to take a much wider view in order to arrive at a more balanced assessment.

- First, let us remind ourselves that economic patriotism was at stake, which meant that *Banque de l'Indochine* had to open and manage branches in every port city and provide for French trading, shipping and insurance companies. In that regard, the implantation in Hankow was a success, with about a dozen French houses relying on the branch, its three French-speaking bankers, its warehouses and services.
- Second, the complementarity between *Banque de l'Indochine* branches profited from the development of the Hankow branch. The Saigon branch invested cash, while the Shanghai branch worked closely with its sister upstream for trade finance and FOREX operations and the management of payment and remittances. For the "house of *Banque de l'Indochine*", it was an opportunity for mutualising the management of its twin offshoots.

- Third, on the scale of the entire firm, any multinational company could find complementary services in that branch in favour of their multiple bases in Chinese port cities: think of German, French or British firms active in the Yangtze valley and elsewhere (*Olivier*, etc.). Offering a banking presence across so many markets added to the French bank's reputation and cemented its international position and brand image. In the eyes of its customers, *Banque de l'Indochine* was almost equivalent to a "*Banque de Chine*". Its brand name persisted even after the merger with *Indosuez* in 1974 (till the twenty-first century, when *Crédit Agricole*-CASA took over, ultimately transforming it into *Crédit Agricole Commercial and Investment Banking*-CACIB, except for some affiliates in Asia (*Indosuez Securities*, *Indosuez Private Banking*).
- Fourth, the amortisation of the entire banking firm, on a global scale, was favoured by the development of the Hankow branch. Specialised departments, business units in market banking, FOREX, trade finance, documentary credit, management of means of payment and money flows, etc., could incorporate the small flows engineered in Hankow and the regions upstream of the Yangtze into the "big machine" of their "organisation of firm" at the scale of *Banque de l'Indochine*. The little bits of business brought by the Hankow branch contributed to reducing the overall cost of exploitation of the banking firm as a whole, be it in Shanghai, Londonor Paris. Here, there were no "noble" products like the silk tackled by the Guangzhou branch, nor the sheer amounts like those of Indochinese rice managed by the Hong Kong branch. As in Tianjin, low-key products were the norm, but each one, like pig bristles or hides, fuelled business and contributed in its small way to the building of *Banque de l'Indochine* in Asia and European.
- Fifth, as the Hankow branch gathered momentum, its managers and employees formed part of the managerial team which reinforced the portfolio of skills and the capital of competence of the *Banque de l'Indochine* as a firm, and generally speaking, at the scale of this modest competitor to HSBC, it enhanced the overall Asian corporate culture of the institution, as has been studied by Frank King regarding HSBC.[69] Details such as the joining of a senior employee at Hankow as deputy manager at the Saigon branch exemplify the spillover of "good practices" in risk management and of the portfolio of skills throughout the *Banque de l'Indochine*'s network of branches in China.

Competition was fierce, especially from HSBC.[70] After a promising start, the Hankow branch endured great difficulties in the second half of the 1910s. But all in all, it succeeded in gaining ground against the banking bigwigs. In fact, it survived both its rivals: first *Russo-Chinese Bank* and then (from 1910), *Russo-Asiatic Bank*. The latter was weakened by bad business in Hankow and by the Russian revolution and second, *Banque industrielle de Chine*, which collapsed in 1923 (though succeeded by *Banque franco-chinoise*, it was later amalgamated into *Banque de l'Indochine*).

[69] King (1996, 2000).

[70] See King (1988).

The "Darwinian syndrome", so effective in business history, did not apply to *Banque de l'Indochine* or its branch.

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Chapter 9
German International Banks in East Asia (1889–1913)

Motoaki Akagawa

Abstract In this paper, the development in and withdrawal from Asia of the Deutsche Bank and the development and characteristics of the Deutsch-Asiatische Bank (hereinafter, DAB), also in Asia, are analysed. On DBA, the analysis is based on the newly explored archival materials, which are original financial statements of the bank in 1906. DBA's headquarter was established in Shanghai, which was an economic centre in Asia linked to the international market. On the other hand, due to its Articles of Association, the DBA's overall corporate governance was determined in Berlin. During the steady development of the economic situation in Asia, the core banking operations of the DAB were foreign exchange business and trade-related lending to European trading companies, comprador capitalists, and local financial institutions, while in Shangdong Province, the German settlement in China, the DAB established close relationships with the railway and mining managements. As an outcome of business activities in 1906, the DAB generated almost all profits based mainly on foreign exchange revenue. In detail, the Shanghai, Tientsin, Berlin, Tingtau, Hong Kong and Yokohama offices earned profits. Thus, the role of the DBA was important not only from the perspective of the imperialism theory constrained by capital export but also from the perspective of establishing trade finance infrastructure.

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Keywords Deutsche Bank · Deutsch-Asiatische Bank · The synthesis profit and loss statement · Synthesis balance sheet · Internal transaction relations between all of offices

1 Introduction

The Deutsche Bank was founded to accomplish the task of foreign trade financing in 1870. The Shanghai and Yokohama branches were opened in 1872 to start the Deutsche Bank's business in East Asia. One of the jobs of the Deutsche Bank was to sell a large amount of silver, a good portion of which was part of the silver stock held by the German Government. Yet, both Asian branches were closed in 1875, with large currency losses caused by the fall of the silver price.

After the Deutsche Bank's withdrawal from East Asia, the Deutsch-Asiatische Bank was founded in 1889 to secure opportunities for Germany's commitments in East Asia. The Deutsch-Asiatische Bank was a joint institution of large German banks under the leading role of Disconto-Gesellschaft; however, the founding of the bank was an arduous process.

The Deutsch-Asiatische Bank was first headquartered in Shanghai, and then branches were opened not only in China, but in other Asian countries and Germany.

In this paper, the development and withdrawal of the Deutsche Bank and the development and peculiarity of the Deutsch-Asiatische Bank are analysed by using their financial statements and protocols of bank management. The analysis focuses on the original financial statements (the balance sheet and the profit and loss statement) of 1906, a relatively stable year in the history of the Deutsch-Asiatische Bank. The statements that were accidentally found to still exist in the Historical Archive of the Deutsche Bank included an entry of all titles of the accounts of the head office and all branch offices that reflected all banking activities.

First, the documents are explained based on their characteristics and composition. Next, the titles of the account of each branch office are placed together and consolidated. Then, the financial statements of each branch office are rearranged to match the original financial statements of 1906. Through this procedure, the synthesis balance sheet and the synthesis profit and loss statement are generated. With these synthesized financial statements, the financial conditions of the Shanghai head office and each branch are clarified, along with the tendencies of the internal transaction among all branch offices.

2 The Deutsche Bank's Branches in Shanghai and Yokohama and the Deutsche Bank's Withdrawal from Asia

2.1 Establishment of the Deutsche Bank and Its East Asia Business

The initiative for setting up the Deutsche Bank came from a group of private bankers headed by Adelbert Delbrueck. The plan was to create a big joint stock bank, whose main functions were to finance German overseas trade. With such a bank, German trade and industry were expected to free themselves from English dependence for the financing of overseas trade.

On 21 March 1870, the door of the Deutsche Bank was open for the First General Meeting of shareholders—76 shareholders (mainly private and joint stock banks) subscribed a starting share capital of 5 million Talers (15 million Marks).[1] Article 2 of the Statute of the Deutsche Bank stated that:

> The purpose of the company is to carry on banking transactions of every description, in particular to further and to facilitate the trade relations between Germany, the other European countries and the overseas markets.[2]

On April 9 of the same year, the Deutsche Bank was established with a paid-up capital of 2 million Talers—that is, 40% of the nominal capital.[3] The Deutsche Bank opened a small head office in Berlin, the Bremen branch in 1871, and then the Hamburg branch in 1872. The Shanghai and Yokohama branches were opened in May 1872 to start the Deutsche Bank's business in East Asia. The opening of the London branch was delayed until March 1873 because of legal complications.

From the start, the Deutsche Bank's East Asian business suffered from Germany's adoption of the gold standard in 1872. However, the bank was given the job of selling 1000 million Marks of silver in East Asia.[4] This silver was a part of 1530 million Marks of silver stock, which the German Government held because of the demonetization of silver currency in Germany. However, the East Asian branches had capital denominated in silver, which, over the years, depreciated in terms of the gold-based Pound Sterling. That is, the silver price in London began to slip from 1873,

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[1]Müller and Forst (2007), pp. 12, 15.

[2]Pohl (1988a), Whale (1930), p. 16.

[3]Seidenzahl (1970).

[4]Pohl (1988c).

and one of the causes of this fall was the sales of silver demonetized by Germany itself. Large exchange losses thereafter and the general depression of trade in the 1870s forced the liquidation of the Deutsche Bank's Asia branches. The Shanghai branch was closed in 1875 with losses of 245,000 Marks and the Yokohama branch was closed in the same year with losses of 191,000 Marks. These losses together accounted for 10% of the original foundation capital (Dotationskapital) of the two branches.[5]

2.2 *Causes of the Deutsch Bank's Withdrawal from East Asia*

Table 1 shows the total assets and profits of the Berlin head office and its branches in the early years of the Deutsche Bank. For the Deutsche Bank, the total assets increased from 48.5 million Marks in 1871 to 148.7 million Marks in 1875. During the same period, the paid-up capital increased from 15 million Marks to 45 million Marks. The breakdown of total assets between the head office and those of the branches was about 35% for the former versus 65% for the latter. The net return on assets was far lower in the branches than in the head office. However, after the closing down of the two Asian branches in 1875, the return on assets of the branches increased considerably from 1.15% in 1874 to 1.28% in 1875. This shows the extent of the damages done by Asian branches to the performance of the Deutsche Bank. The fall of the silver price is conventionally considered 'the true reason why the Deutsch Bank (in East Asia) fell into difficulties'.[6] However, Bauert-Keetman commented that the scale of trade between Germany and China was not large in those days. Hence, the scope of business activity for the Deutsche Bank was low.[7] This may be the more appropriate evaluation. In either case, after the withdrawal from the East Asian business, although the original program of financing overseas trade was nominally maintained, the bank developed into a German universal bank, 'strengthening an entry to the domestic capital market more to investigate profit in banking services'.[8]

[5]Plumpe (2004).

[6]Pohl (1988b), Barth (1995), pp. 20–21, Rosendorf (1940), p. 104.

[7]Bauert-Keetman (1988), p. 8.

[8]Gall et al. (1995), pp. 22–23.

Table 1 Development of the Deutsche Bank (1871–1875) (Mark, %)

Fiscal year	1871		1872		1873		1874		1875	
Total assets	48,481,325.85*				139,858,401.90**		156,760,662.80**		148,667,221.8	
Economic growth	100				289		323		307	
Assets: profit	A	P	A	P	A	P	A	P	A	P
Head office	64.0	88.6		80.6	67.2	74.8	61.7	69.9	65.6	51.5
Branches	36.0*	11.4*		19.4	32.8	25.2	38.3	30.1	34.4	48.5

Source Geschäft-Bericht der Direction der Deutschen Banken für die Zeit vom 1871 bis 1875
Note 1 The Exchange Rate of Taler to Mark as follows
*4082 Goldthlr.39 Gt = 4449 Courantthlr.29Sgr (1.Goldthlr = 1.09 Courantthlr.) (Geschäft-Bericht der Direction der Deutschen Banken für das Jahre 1871, S.11)
**1Thlr. = 30 Silbergroschen (Sgr.), 1Sgr. = 12 Pfennigen(Pf.), 1Thlr. = 3Mark
Note 2 A: Assets Holdings Ratios, P: Profit Securring Ratios

3 Development and the Peculiarity of the Deutsch-Asiatische Bank

3.1 Foundation and Business Organization of the Deutsch-Asiatische Bank

After the German overseas banks experienced a 14-year interim in East Asia, the Deutsch-Asiatische Bank (hereinafter, 'DAB') was founded in 1889 to secure opportunities for Germany to make commitments in East Asia. The DAB faced difficult problems in the Chinese market from its inception. Most of the German firms engaged in business in East Asia had already developed close relations with the Hongkong and Shanghai Banking Corporation. Moreover, the Hongkong and Shanghai Banking Corporation opened a branch in Hamburg in 1889, thus coming into direct competition with the DAB.[9]

The founding of the DAB was an arduous process. The Government of Imperial Germany, in cooperation with the Disconto-Gesellschaft and the Deutsche Bank, put forward a plan to start a bank called the *Ostasiatische Bank* as the *Ueberseeische Reichsbank* (overseas state bank).[10] The project stumbled upon legal and practical difficulties, and was thus forfeited. Afterwards, a banking group of the Disconto-Gesellschaft and the Deutsche Bank formulated a plan to found a 'Deutsch-Chinesische Bank' in cooperation with all the major banks of Germany. However, recent research has revealed that another plan to find an overseas bank in China existed. In May 1887, a banking group headed by R. Warschauer & Co. and the Berliner Handels-Gesellschaft, which had succeeded in underwriting the first Chinese government securities in Marks,[11] announced a 'detailed plan to found an overseas bank establishment in China'. These two banking groups were soon unified through the intermediary efforts of the Koenigliche Seehandlung (Prussia's state bank). It is said that there was tacit pressure from Bismarck, recommending the two bank groups to join their forces.[12] The DAB was born as a result of this other plan.

One special feature of the DAB was that its capital and all its financial statements were expressed in terms of Shanghai Taels. However, the capital was paid up in Marks based on the then prevailing price of silver. As the first portion of the capital, 5 million Shanghai Taels (hereinafter, 'Sh.Tls.') were recorded.

[9] Müller-Jabusch (1940), p. 50, Plumpe (2004), pp. 35–36.

[10] Wolff (1930), pp.39-40 and p.50, and Disconto-Gesellschaft (1901), pp.84–85.

[11] King (1991).

[12] Bauert-Keetman (1988), pp. 25–34.

The members of the founding consortium combined in the promotion are as follows:

1	Discont-Gesellschaft	805
2	Generaldirektion der Seehandlungssozietät	175
3	Deutsche Bank	555
4	Bleichröder	555
5	Berliner Handels-Gesellschaft	470
6	Bank für Berliener Handel und Industrie (Darmstaedter Bank)	310
7	Rob. Warchauer & Co. in Berlin	310
8	Mendelssohn & Co. in Berlin	310
9	Jacob S.H. Stern in Frankfurt a. M.	470
10	M.A.v. Rothschild & Söhne in Frankfurt a. M.	310
11	Norddeutsche Bank in Hamburg	380
12	Sal. Oppenheim jun. & Cie in Koeln	175
13	Bayerische Hypotheken-und Wechsel-Bank in Muenchen	175
Sum total		5000[a]

(in thousand Sh.Tls.)
[a]Whale (1968), pp. 72–73

This amount which was paid up in 4.5 Marks in terms of the Sh.Tls. represented 25% of the nominal capital at the time of establishment. The initial effective capital consequently amounted to 5.655 Million Marks.

A few years later, in April 1895, Dresdner Bank, A. Schaafhausendsche Bankverein and a banking house Born and Busse in the autumn of the same year, and Nationalbank für Deutschland and a banking house L. Behrens and Söhne joined with the DAB to expand the banking business in East Asia.

As the unpaid capital in 1896 decreased from 3.75 million Sh.Tls. in the previous fiscal year to 1.87 million Sh.Tls., 50% of this capital was contributed by the latter banks. Due to the exchange rate at that time—which was traded at 3 Marks per 1 Sh.Tls.—and although also explained by Otto, W., they would have participated with the equivalent amount to the preceding banks. At this stage, the DAB grew to be the national overseas bank representing the interest of the major banks in Germany.[13]

The DAB's head office was established in Shanghai and a branch office was opened in Tientsin in 1890. In the course of the next 20 years, an organization that covered China completely was steadily built up, as branch offices were opened in Hankow (1897), Tsingtau (1898), Tsinanfu (1904), Peking (1905) and Canton (1910). At the same time, the DAB also formed an Asia network of branch offices that included Calcutta (1896), Hong Kong (1900), Yokohama (1905), Kobe (1906) and Singapore (1906). In addition, branch offices were established in Germany, namely in Berlin (1896) and Hamburg (1906).[14]

[13]Müller-Jabusch (1940), pp. 31–2, 72–3, and Das Ziffernwerk, Aktiva, and Otto (1910).
[14]Whale (1968), pp. 73.

3.2 Organization and Management Control Structure of the DAB

In the protocol dated 26 August 1906 of the DAB, information reporting the business activities of the bank, such as an organization chart, names of associated companies, total holdings of securities, the process of capital increase, pay-out ratio over the past 10 years, and reserve funds of that year, are specifically described. Among them, a particularly noteworthy item included the organization chart on which the position and the home bank are clearly indicated next to the name of each member of the Supervisory Board and the name of branch manager which formed the Management Board. The Supervisory Board was composed of 16 members. The chairman was Dr Knappe from Seehandlungsszietät and the first deputy chairman was Schoeller, A. from Discont-Gesellschaft. In addition, the second deputy chairmen were Wallich, H. from Deutsche Bank and Urbig, F. from Discont-Gesellschaft. Being multilingual, Urbig, F. became the main person in charge of the China business.

The Executive Business Committee was set up by the Supervisory Board which elected nine members for this Committee. The Committee was the central headquarters for collecting the information on the activities of the bank, deliberating on the immediate business matters, and arranging the subjects for the Supervisory Board.

Managing Directors of the bank are assigned according to the importance of the business area, with three directors in the Berlin branch, but only one director in each of the other branch of Calcutta, Yokohama, Hamburg and even Shanghai head office.

According to the DAB's Articles of Association, the Supervisory Board had its domicile in Berlin. Further, three-quarters or more of its members had to be residents of Berlin, and all the members should have been residents of Europe.[15] As a result, the actual decision making for the management of the DAB was largely performed by the 'Executive Business Committee', which consisted of the leading members of the Supervisory Board and the principal directors of the Berlin branch office. Thus, the bank's business of the Shanghai head office and all branch offices were directed by policy decisions made in Berlin.[16]

After 1906, the bank's business involving public bonds and loans of national and local government in China, Japan and Korea, besides the securities of railway companies guaranteed by government, was being effectively dealt with in the meetings of the Consortium for Asian Business, which had been set up in 1890.[17] When the two different administrative governing bodies with different business area in East Asia both came into operation, the problem of how to handle both business entities in a unified and coordinated manner arose. In those days especially, the pursuit of

[15] Plumpe (2004), p. 45.

[16] Protokoll der Sitzung des Geschaefts-Ausschusses der Deutsch Asiatische Bank vom 26 Aug. 1906, Plumpe (2008), pp. 19, 20. The Committee members other than main members, according to available protocol, were Müller, W. from Dresdner Bank, Mendelssohn, R. V. from Mendelssohn & Co., Oppenheim, H., from Rob. Warchauer & Co., Fürstnberg, C. from Berliner Handels-Gesellschaft and Blaschke, A. from Bleichroeder.

[17] Müller-Jabusch (1940), pp. 52–53.

German interests itself was an inevitable task in the face of intensifying competition between the Western powers. The German banking syndicate responded to this complicated problem because the main persons in business management belonged to both organizations (Table 2).

Due to restricted conditions on the research materials, determining the exact number of meetings in both organizations was difficult, but ad hoc meetings of the Consortium for Asian Business were concentrated and called the most frequently.

Table 2 Members of the DAB and the consortium for Asian business

The consortium for Asian business		The DAB	
The participating banks	Members of meetings	Executive business committee	Member of supervisor
Chairman	**Schoeller**	**Schoeller**	**Schoeller**
Bank für Handels & Industrie		**Klitzing**	**Klitzing**
Bayerische Hypotheken & Wechselbank			
Berliner Handeisgesellschaft	Mosler, **Füstenberg**, Ahrens	**Füstenberg**	**Füstenberg**
Bleichröder	**Blaschke**, Wolff		**Blaschke**
Deutche-Asiatische Bank	**Erich, Rehders**, Messing	**Erich, Rehders**	
Deutsche Bank	Heinemann, Mankiewitz, Michaiowsky	**Wallich**	**Wallich**
Direction der Discont-Gesellschaft	**Urbig**	**Urbig**	**Urbig**
Dresdner Bank	Nathan, **Müller**	**Müller**	**Müller**
Jacob S. H. Stern	**Braunfels**		**Braunfels**
L. Behrens & Söhne			
Mendelssohn & Co.	**R. V. Mendelssohn,** P. V. Mendelssohn-Bartholdy	**R. V. Mendelssohn**	**R. V. Mendelssohn**
Nationalbank für Deutschland	Stern, Witting, Schiff,Curt Sobernheim		
Norddeutsche Bank in Hamburg	**Schineckel**	**Schineckel**	**Schineckel**
Sal. Oppenheim Jr. & Cie.	**H. Oppenheim**		**H. Oppenheim**
A.Schaaffhausenscher Bankverein	Schwitzer, Thomas, Schröder, **Samuel**		**Samuel**
Deutsch-Chinesische Eisenbahn-Gesellschaft	Hoeter		Managing Director

Source Konsortium für Asistische Geschäfte, Sizung für das Jahr 1909, Protokoll derSizung des Mitglied des Aufsichtsrat der DAB von 18 Juni 1909 and Deutsch-Asiatische Bank (1894, 1897–1913) *Geschäfte- Bericht* für das Jahr 1909

Table 3 Number of meetings of the Asian business

	1909	1910	1911	1912	1913	Total
Executive business committee	10	5	7	6	3	31
Supervisory board	1	1	2	2	1	7
Consortium for Asian business	11	4	8	11	11	45
Total	22	10	17	19	15	83

Source Protokoll der Sitzung des Mitglied des Aussichtrats der Deutsch-Asiatische Bank, 1909–1913, Protokoll der Sitzung des Geschäfts-Ausschusses der Deutsch-Asiatische Bank, 1909–1913 and Konsortium für Asiatische Geschäfte, Sitzung für das Jahr 1909–1913

For example, in chronological order, various meetings were held in 1909, three times in March, twice in May, and three times in June; in 1910, twice in October and in 1913, three times in January and four times from the end of April to the beginning of May (Table 3). The schedule of these meetings exceptionally overlapped with that of the Executive Business Committee.[18] Hence, a two-sided system of this sort was consciously constructed to allow for the strict division of the business areas of both entities.

3.3 *Main Assets of the DAB (1889–1913)*

The movements of the five main asset accounts of the DAB are shown in Fig. 1 (in Sh.Tls.) from 1889 to 1913, namely deposits with other banks, bills receivable, securities, credits (loans and advances) and cash/foreign currency holdings. Among these accounts, bills receivable and credit grew rapidly. In 1907, bills receivable were 10.6 times of the amount in 1890, and credit grew to be 13.2 times of the level of 1890. On the other hand, securities holdings grew relatively slowly, and its amount never exceeded 3.5 million Sh.Tls. Although the DAB was a member of the Consortium for Asian Business on the issue of Asian securities in the German capital market and acted as the representative of the consortium in Asia, its holding of securities did not markedly increase. Indeed, the proportion of securities to the total assets declined in the course of time. Instead, cash/foreign currency on hand and deposits with other banks increased markedly from 1908.

The composition of assets of the branch offices underwent a remarkable change after 1908, when the Chinese economy underwent depression in the wake of the world economic crisis of 1907–8.[19] Then, in 1911, the Republican Revolution took

[18]Based on the remaining protocols, the Committee's holding was as follows: In 1909, on January 6, February 3, March 3, April 29, May 25, June 20, July 18, October 13, November 19 and 20; in 1910, February 9, March 8, April 13, May 18, June 28, July 28, September 13, December 6, and so on. Evidently, the Committee was regularly held almost once a month (Drawing up by means of the concerned year of Protokoll der Sitzung des Geschäfts-ausschusses der Deutsch Asiatische Bank).

[19]Müller-Jabusch (1940), p. 223.

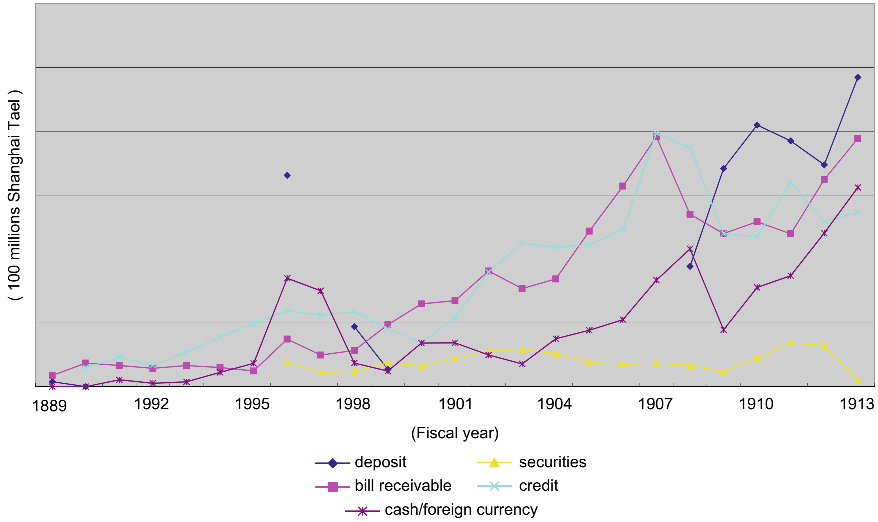

Fig. 1 The main assets of the Deutsch-Asiatische Bank (1889–1913)

Table 4 Average value of every five years about main assets (1890–1913) (100 Mill. Shanghai Tael) (SD)

	Cash/foreign currency	Deposits with other bank (SD)	Bill receivable	Securities	Credit
1890–1894	0.562 (0.330)		1.622 (0.160)		2.408 (0.949)
1895–1899	1.151 (0.478)	7.538 (6.992)*	3.027 (1.360)	1.525 (0.427)**	5.379 (0.613)
1900–1904	2.977 (0.818)		7.680 (1.092)	2.341 (0.512)	7.998 (3.440)
1905–1909	6.731 (2.746)		14.591 (3.155)	1.671 (0.295)	15.790 (4.137)
1910–1913	8.236 (3.227)	20.338 (2.894)	15.139 (3.398)	2.366 (1.327)	13.579 (1.803)

Source Müller-Jabusch (1940) Ziffernwerk:Aktiva
Note 1 *3 years of 1896, 98, 99; **Years of 1896–1899
Note 2 4 years of 1910–1913, *SD* Standard Deviation

place. This scared the Chinese merchants, who drew cash from their accounts at the Chinese banks, and these banks were not able to deal with the withdrawals of the deposits. This event also took place in the background of the change of the main assets after 1908.[20] Table 4 shows the five-year average amounts of the five main asset accounts. In 1890–94 and 1895–99, the credits far surpassed the amounts of the bills receivable. From 1890 to 94, credits increased by 50%, and during 1895–99, the increase was 80%. However, the relationship between credits and bills receivable

[20]Deutsch-Asiatische Bank (1894, 1897–1913), *Geschaefts-Bericht* für das Jahr 1909–1911.

was completely reversed in 1900–04. The average amount of bills receivable for this period was 2.5 times of the average of the previous five-year period and amounted to about 8 million Sh.Tls. The average amount of the credits in 1900–04 was only 1.5 times of that of the previous period and the average sum of this account also reached 8 million Sh.Tls. In the next five years, 1905–09, the average amount of the bills receivable was 14.6 million Sh.Tls., which was 1.90 times of the previous period, while the average amount of credits was 15.8 million Sh.Tls., which was 1.97 times of the previous period. However, in 1910–13, credits declined a little and the average for the four years was 13.6 million Sh.Tls., while bills receivable showed a small increase in the average amount and reached 15.1 million Sh.Tls., thus surpassing the level of credits. However, the amount of bills receivable was subject to wide fluctuations from year to year.

On the other hand, the amount of cash/foreign currency on hand gradually increased from 1905, and deposits with other banks remarkably increased during 1910–13. In 1913, the amount of cash/foreign currency on hand plus deposits with other banks became almost equal to the sum of bills receivable and credits. Further, in the balance sheets of 1912 and of 1913, the amount of deposits, which had been included in the debt account in the balance sheets of former years, was independently shown for the first time.[21] Deposits exceeded 10 million Sh.Tls. in 1912 and 1913, nearly 60% of which consisted of time deposits of maturities of more than three months. The share of deposits to the total liability of the DAB was only about 20% in 1912 and 1913.[22] With the big banks in Berlin, the share of deposits to the total liability was about 43% during the same period. This difference reflects the difference in business of the domestic credit banks and of international banks such as the DAB. As the economic and political confusion continued and intensified in China, the DAB faced increasing difficulties. Although the instability benefitted the international banks, because an increasing number of Chinese people chose foreign banks as their safe havens and deposits continued to increase, the total liability of the DAB multiplied compared with the 20% share of deposits.

[21] Tomioka (1916), pp. 353, 369–371.

[22]

Unit: Shanghai Tael

Maturity dates of deposit	1912	1913
Within 7 days	1,172,006.33	1,690,052.08
From 7 days to 3 months	3,493,714.81	2,615,756.33
Over 3 months	7,178,794.88	5,820,643.85
Total	11,844,516.00	10,126,452.26

Source Deutsch-Asiatische Bank (1894, 1897–1913), *Geschäfts-Bericht* für das Jahr 1912–1913

3.4 Assets and Profits of the Entire DAB, 1889–1913

Figure 2 and Table 5 show the total assets and the return on assets of the DAB in its entirety. During 1890–94, the average of the total assets amounted to 4.60 million Sh.Tls. or 0.85 million Pound Sterlings. During 1910–13, the average total assets were 63.46 million Sh.Tls. or 8.32 million Pound Sterlings. Therefore, in terms of Shanghai Taels, the assets grew 13.80 times between the average of the years 1890–94 and that of the years 1910–13, but in terms of Pound Sterling, the growth was only 79 times during the same period. It also appears that, both in terms of Shanghai Taels and Pound Sterling, the growth of assets accelerated from 1900–04. Acceleration was particularly notable during 1905–09.

The DAB's return on assets was subject to extreme fluctuations. Its average level and its standard deviation for each five-year period are shown in Table 3. In 1900–04, the return on assets was 2.23% and the standard deviation was 0.14%, so the coefficient of variation was only 0.063. In 1905–09, the average level of the return on assets was 1.92%, but the standard deviation was as high as 0.69%, which resulted in a coefficient of variation of 0.359. During 1910–13, the average was 0.87%—that is, less than half of that of the previous period. Moreover, the standard deviation was 0.31%, so that the coefficient of variation was 0.356. These figures suggest a declining trend in the return on assets, which is clearly shown in Fig. 2.

In conclusion, the DAB was favoured with good economic conditions up to about 1905 and realized a reasonable level of return on assets, but thereafter, the level of

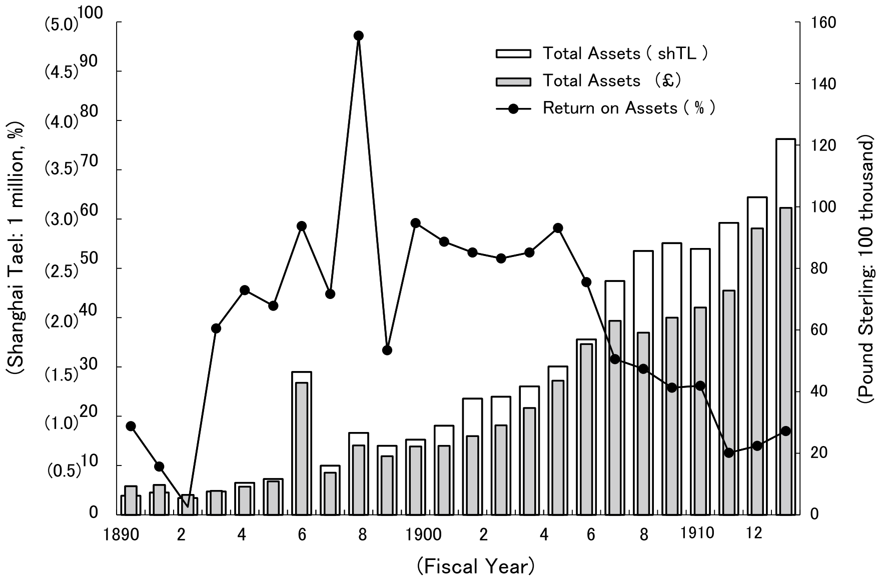

Fig. 2 Assets (Shanghai Tael, Pound Sterling) and Profit of the Deutsch-Asiatische Bank (1890-1913)

Table 5 Total assets and return on assets on the average value of every five years (1890–1913) (SD)

	Total assets		Return on assets (%)
	1000 Shanghai Tael	1000 pound sterling	
1890–1894	4598.2 (1188.7)	846.7 (135.0)	1.13 (0.93)
1895–1899	15,361.8 (8418.6)	2180.3 (1262.1)	2.76 (1.26)
1900–1904	21,379.6 (4519.5)	2679.4 (532.1)	2.23 (0.14)
1905–1909	44,349.2 (11,062.8)	5701.5 (824.8)	1.92 (0.69)
1910–1913	63,460.0 (9532.3)	8317.2 (1557.0)	0.87 (0.31)

Source Müller-Jabusch (1940) Ziffernwerk Aktiva, Gewinn und Verlustrechnung, and Schneider, J., Schwarzer, and O., Zellfelder, F. (1992), pp. 153–154
Note 1 SD Standard Deviation
Note 2 The Exchange Rate of Shanghai Tael to Pound Sterling is set at the December of Every Years
Note 3 Unpaid Capital is deducted from Total Assets

return on assets declined and became subject to extreme gyrations. This change of circumstances is also reflected by the movement of the rate of dividends, which is shown in Table 6. Taking five-year averages, the distribution rate was as follows:

Years	Average rate of dividend (%)
1890–94	2.9
1895–99	8.0
1900–04	8.6
1910–13	6.25

4 Financial Statements of the DAB

4.1 Drawing up of the Financial Statements and Problems—Synthesis Balance Sheet and Synthesis Profit and Loss Statement

The original financial statements of 1906, the balance sheet (hereinafter, 'Original B/S') and the profit and loss statement (hereinafter, 'Original P/L') were accidentally found to still exist in the Historical Archive of the Deutsche Bank. In those financial statements, all titles of the accounts of the head office and all branch offices are described, added up, and further drawn up in handwriting.[23] In the history of the

[23]Deutsch-Asiatische Bank (1906a, 1907) and Protokoll der Sitzung des Geschäfts-Ausschusses der Deutsch-Asiatischen Bank von 24. Mai 1907.

Table 6 Dividend rate (1890–1913)

Fiscal year	1889	1890	1891	1892	1893	1894	1895	1896	1897	1898	1899	1900	1901
Dividend rate (%)	–	2.5	0	0	5	7	8	10 + Bonus	6	10	6	7	7
Fiscal year	1902	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	
Dividend rate (%)	9	10	10	11	9	8	8.5	8	8	5	5	7	

Source Bauert-Keetman (1988), p. 323

DAB, a characteristic of 1906, the year which the organization of the DAB was readied in Germany, India and each Chinese foothold city was that the profit rate was good, and the business expansion was performed favourably.

In the Original B/S and the Original P/L, the assets, debt, capital and performance of the DAB were displayed in the local currency peculiar to the area in which each branch office was located, because the branch offices existed under separate currency systems—for example, Calcutta was the Rupee, Singapore was the Straits-Settlements-Dollar, Hong Kong was the Hong Kong-Dollar, Yokohama and Kobe were the Yen, Berlin and Hamburg were the Mark, and lastly each area of the China had its own peculiar Tael. In hindsight, the financial statements should have been displayed in two kinds of currency, the local currency and the Shanghai Tael, along with the exchange rate of local currency with the Shanghai Tael at the time of their making.

The form of the financial statements was composed of unified titles of accounts used in the DAB in its entirety. Accordingly, each title of an account item was calculated by unifying the common account item that each branch office displayed. As an example, a part of the credit account (Shanghai head office, and Singapore, Yokohama, and Tientsin branch offices) with some revisions in the debtor side of Original B/S was extracted in Table 7.

The branch office with the credit concerned relating to the other branch offices is shown in parenthesis in the first column, namely the 'Name of Debtors'. The branch office names arranged below the '( )' are those of the borrowers, or in other words, the debtors to the branch office with the credit. Further, the name of the branch office within each parenthesis is taken away as an extract object here. The amounts of the account are indicated in the next column, namely 'Credit in Each Currency (1)'. The Shanghai head office is shown in Shanghai Tael, while the other branch offices are mainly shown in the local currency of the area where each branch office was located. The amount of credit in each currency converted to Shanghai Tael is set up in the column 'In Terms of the Shanghai Tael (2)'. Based on the comparison of the amounts in these two columns, the exchange rate of each currency for Shanghai Tael at the time when the Original B/S was made can easily be calculated. The credit of each branch office is also put in the debt account in the same amount to the creditor side. In this sense, mutual relations of the inside businesses between all the offices of the DAB can be understood by comparing the amount in credit against each debt. On the other hand, credit for the customers excluding the other offices of the DAB under the office concerned, shown in the fourth column as 'Credit after the Adjustment (4)', can be determined by subtracting the credit of the second column that the office holds in the other offices from the third column, namely 'Total Credit of Each Office (3)'. In other words, the credit of all other customers is $(3) - (2) = (4)$. Lastly, the sum of the credit of each office, the 'Combined Credit of the Bank (5)', is the total credit of the DAB in its entirety.

In summary, the following points should be noted:

1. The above example was only a part of the debtor side in the Original B/S.

Table 7 Credit account in debtor side of synthesis balance sheet (original)

Name of debtor	Credit in each currency (1)	In terms of the Shanghai Tael (2)	Total credit of each office (3)	Credit after the adjustment (4)
Shanghai			5,214,873.50	
Tsingtau	120,861.31			
	101,573.80			
	117,827.95			
Hankow	200,193.77			
Yokohama	9,996.63			
Culcutta	525,754.69			
	66,150.06			
Singapore	10,570.30			
Tsinanfu	7,223.68			
Berlin	1,173,097.92			
Hamburg	3,277.65			
Kobe	17,649.82			
Hong Kong	1,197.99			
Tientsin	94,868.11			
Subtotal		2,450,273.68		2,764,599.82
Singapore			1,149,599.82	
Shanghai	Str.$1, 730.00	1,312.64		
Kobe	Str.$120.23	91.22		
	Y40, 900.56	27,147.75		
Culcutta	Str.$2, 110.20	1,601.11		
Berlin	Mk.827510	262,285.26		
Hong Kong	HK$278, 193.91	204,472.52		
Yokohama	Y1, 430.13	949.25		
Hamburg	Mk.6, 634.00	2,102.69		
Subtotal		499,962.44		6,49,637.38
Yokohama			440,392.47	
Hong Kong	Y331.24	243.83		
Kobe	Y38, 765.39	25,730.53		
Singapore	Str.$236.91	179.75		
Hamburg	Mk.30,007.00	9,510.94		
Shanghai	Y76, 142.68	50,539.70		
Tsingtau	Y6, 281.69	4,169.47		
Subtotal		114,513.60		325,878.87
Tientsin			1,875,485.10	

(continued)

Table 7 (continued)

Name of debtor	Credit in each currency (1)	In terms of the Shanghai Tael (2)	Total credit of each office (3)	Credit after the adjustment (4)
Tsingtau	Mx$2, 177.51	1,614.19		
Kobe	tTL9,737.66	10,224.54		
Berlin	Mk.144,198.30	45,704.69		
Yokohama	Y8,458.07	5,614.04		
Hong Kong	HK$7,741.65	5,690.11		
Shanghai		55,345.82		
	Mx$4,119.49	3,049.45		
Peking	pTL4,661.49	4,941.18		
Tsinanfu	Mx$150.41	111.35		
Tientsin ?		79,051.68		
Subtotal		211,347.05		1,664,138.05
Combined credit of the bank (5)				121,75,306.74

An extract from 4 offices (Shanghai · Singapore · Yokohama · Tientsin) 31 December 1906
Souce Deutsch-Asiatische Bank (1996b), *Zusammenstellung der Bilanzen per 31 December 1906* in Historical Archive of the Deutsche Bank
Note 1 All the values without the currency unit mark stand for the Shanghai Tael (sh.TL.)
Note 2 Rate of conversion and the mark of each currency unit are as follows. 1(sh.TL.) = 1.318 Straits-Settlements-Dollar (St$) = 1.35 Mexican Dollar (Mx$) = 3.155 Mark (Mk.) = 1.507Yen (Y) = 0.96 Tientsin Tael (tTL.) = 0.95 Peking Tael (pTL.) = 1.36 Hongkong-Dollar (HK$)
Note 3 As for Tientsin? The reading is impossible

2. Though the notation of each title of an account differed, all titles of the accounts were based on a unified standard in both the debtor side and the creditor side.
3. This form also applied to the Original P/L.

4.2 Financial Statements of Each Office

In analysing the financial statements for this paper, all data for the accounts of each office, which had been collected in the unified standard of the DAB in its entirety, were reduced to each office again. Next, that data were arranged in the same form of the financial statements. In other words, the financial statements of each individual office were rearranged to match the Original B/S and the Original P/L (I reversed the items here, since the reasoning would be that the Original B/S and Original P/L, which were accidently found to still exist, were used as the templates to make the financial statements for the individual offices).

The financial statements made through this procedure were recreated—that is, the individual balance sheet (hereinafter, 'B/S') and the individual profit and loss statement (hereinafter, 'P/L') of the head office and each branch office. Next, the titles of the accounts in the B/S and P/L of the individual offices were placed together, consolidated and arranged such that the accounts of each office corresponded to the unified standard of titles of accounts in each form. Furthermore, the column of the combined totals of the DAB in its entirety was added. The end results are presented in Table 8, 'The Synthesis Balance Sheet (The Head Office/Branches Offices, a Simple Version)', and Table 9. 'The Synthesis Profit and Loss Statement'.

In Table 8, the following points are considered as important:

1. The Stockholders equity, such as stock capital account and revenue reserve account, was taken from the Shanghai head office, and Dotationskapital (or officially provided capital, which was mentioned with a title, for example, Calcutta Capital) were used for the establishment of the foreign branch offices (i.e., Calcutta, Singapore, Berlin, Hong Kong, Yokohama and Kobe), except in the China area.
2. In Table 8, the total of the debtor side of the DAB in its entirety and that of the creditor side are expected to be equal; however, the total of both sides did not always agree at the level of the individual office. In other words, disagreement of the debtor side and the creditor side occurred.
3. In the internal transaction between the offices,[24] the entry in one office was already filled out in an accounting book, but it was not registered, in case a report did not arrive in the other office.
4. The setting of an account in transit would be necessary in accounting to allow this disagreement to be equal.[25] However, the amount itself, which was mentioned in each account of the debtor and the creditor, was appropriated without setting this adjustment account item in particular.
5. Capital Abzweigung (which was mentioned with a title, ramification of Dotationskapital) corresponded to the officially provided capital in the debtor side. However, neither of these accounts was mentioned in the balance sheet of the annual report of 1906.

Table 9 reflected the annual performance of the business activity of the DAB in its entirety during 1906 (I am not sure of the point intended, as Fig. 1 shows that the level of securities was habitually low, so I deleted the statement for now). The performance of each office was sorted by either profit or loss. However, interestingly, the debtor side and the creditor side of the individual office were always balanced.

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[24]For the discussion of the Deutsch-Asiatische Bank, I changed all references of 'branch' to 'branch office', so that the term 'offices' can be used to refer to the Shanghai head office and the individual branches.

[25]Tokai Bank (1967), pp. 294–299.

Table 8 Synthesis Balance Sheet (The head office/branches, Sinple Version, 31 December 1906. Shanghai Tael)

Debtor	**Combined**	**Shanghai**	**Tientsin**	**Culcutta**	**Berlin**	**Tsingtau**	**Hankow**	**Hong Kong**	**Tsinanfu**	**Peking**	**Yokohama**	**Singapore**	**Hamburg**	**Kobe**
Cash/Foreign Currency	5247429.03	3069640.19	274380.98	393074.23	109245.43	175940.8	64609.88	618493.81	58203.61	57152.04	254870.14	47013.67	6701.53	118102.72
Bill Recievable	16140481.51	3481214.53	2158594.82	3722487.15	112532.65	1018502.9		1332801.83	7466.94		2034330.89	653807.24	4024.9	1614717.63
(Domestic Bill)	772043.11	162423.44	71009.11	280341.96	22038.99	17658.44					140757.98			77813.19
Foreign Bill of Exchange	14952863.41	3194000.19	2087585.71	3442145.19	10924.35	975042.94		1332801.83	7466.94		1834166.65	653807.24	4024.9	1410897.47
(Others)	415574.99	124790.9			79569.31	25801.55					59406.26			126006.97
Securities	1752875.77	1517513.18	5779.51	86715.39	119902.77			5880			10898.77			6186.15
Credit	12175306.74	2764599.82	1664138.05	1296095.49	2426123.4	1214285.3	196565.71	1032770.65	167096.47	12301.63	325878.87	649637.38	230469.87	195344.09
Buldings and Lands	606600.97	288274.42	79051.68			57256.13	19596.64			50347.45	112074.65			
Personal Property	30272.9	668.22	1777.46	855.88		1249.22	393.62	487.71	541.42	827.67	2845.53	6928.45	4874.62	8823.1
Capital Abzweigung	4355036.92			691860.99	99119.44			1420000			750556.24	758750		634750.25
Total	40308003.84	11121910.36	4183722.5	6191089.13	2866923.69	2467234.4	281165.85	4410434	233308.44	120628.79	3491455.09	2116136.74	246070.92	2577923.94
Creditor	**Combined**	**Shanghai**	**Tientsin**	**Culcutta**	**Berlin**	**Tsingtau**	**Hankow**	**Hong Kong**	**Tsinanfu**	**Peking**	**Yokohama**	**Singapore**	**Hamburg**	**Kobe**
Stock Capital	7500000	7500000												
Dotationskapital	4371792.83	86806.24		658616.9	99119.44			1470000			663750	758750		634750.25
Revenue Reserve	634768.36	634768.36												
General Reserve	371828.83	371828.83												
[a] All Kinds of Fund	617158.81	617158.81												
Debt	24779379.28	6727368.03	3894807	3376024.21	3309019.18	1727756.2	150006.35	1623715.4	504284.35	576108.59	1740079.26	659843.87	115391.04	374975.82
Acceptance and guarantee	624419.88				416164.45								208255.43	
(Income)	1482011.14	919783.35	84921.8		251300.64	124233.27		56311.15	5850.02		39610.91			
(Loss)	73355.29			12962.65			6518.36			20702.06		22549.95	9937.8	684.47
Net Profit	1408655.85													
Total	40308003.84	16857713.62	3979728.8	4021678.46	4075603.71	1851989.5	143487.99	3150026.55	510134.37	555406.53	2443440.17	1396043.92	313708.67	1009041.6

Source Making up from Deutsh-Asiatische Bank (1906b), Zusammentellung der Bilanzen per 31 December 1906 in Historische Archiv of the Deutsche Bank
Note "All Kinds of Fund" is added to Ajustments funds of Foreign Currency, Allowance for possible Loan Losses, Reserve for Buldings and Unpaid Dividend etc.

Table 9 Synthesis profit and loss statement (31 December 1906. Shanghai Tael)

Debtor	Combined	Shanghai	Tientsin	Culcutta	Berlin	Tsingtau	Hankow	Hongkong	Tsinanfu	Peking	Yokohama	Singapore	Hamburg	Kobe
Administrative expences	492,768.41	107,523.03	37,995.07	57,862.28	45,974.57	40,680.76	12,025.22	47,901.34	10,185.58	23,383.04	47,957.86	26,084.59	11,008.14	24,186.93
Travelling expences	16,019.52	5909.39	707.07	1709.33	224.31			1400.91	45.46	22.68	2779.27	1886.25	127.89	1206.96
Correspondence expences	70,060.89	18,429.76	5979.81	6814.37		2758.30		18,819.39	267.43	231.94	10,250.40	2943.43	104.04	3462.02
Brokerage fee	101,336.83	20,503.72	13,124.56	11,684.68				34,437.05		1742.88	6732.84	7251.00	11,240.07	5860.10
Provision	18,826.70										67,720.37			
(Loss)	42,182.02	7829.57	2718.97	17,219.42				12,516.78				575.36		1321.92
(Income)	23,355.32				13,917.71	1721.82			484.30	74.39	5841.23		1315.87	
Advertising expenses	1131.50				1131.50									36,037.93
Stamp duty	4645.01			3167.45				1387.85				89.71		
Tax	4419.01				4419.01							38830.34		
Miscellaneous expences	4857.03			98,457.53	4857.03									
(Income)	148,2011.14	919,783.35	84,921.80		251,300.6	124,233.3		56,311.15	5850.02		39,610.91			
(Loss)	73,350.29			12,962.65			6518.36			20,702.06		22,549.95	9,937.80	684.47
Net profit	1408655.85													
Total	2,122,720.75	1,079,978.8	145,447.28	85,494.88	293,989.4	165,950.5	5506.86	172,774.47	15,864.19	4604.09	101,490.05	16,280.39	−13.6	35,353.46
Creditor	Combined	Shanghai	Tientsin	Culcutta	Berlin	Tsingtau	Hankow	Hongkong	Tsinanfu	Peking	Yokohama	Singapore	Hamburg	Kobe
Profit brought forward	121,469.59	121,469.59												

(continued)

Table 9 (continued)

Creditor	Combined	Shanghai	Tientsin	Culcutta	Berlin	Tsingtau	Hankow	Hongkong	Tsinanfu	Peking	Yokohama	Singapore	Hamburg	Kobe
Gains on securities	288,881.41	31,347.53			257,533.5								0.42	
Coupon	563.64				558.94								4.70	
Foreign exchange gain	1,394,250.92	730,425.85	134,391.39	45,300.38	67.17	155,029.3	5061.46	189,699.10	13,988.94	2064.29	70,376.44	12,753.69	74.44	35,018.44
Rent from Shanghai office	12,000.00	12,000.00											79.56	
Custodial services	1450.00	1450.00												
Loan interest	288,807.93													
(Income)	305825.72	ientsin	11055.89	40194.50	20532.52	10,921.18	445.40		1875.25	2539.80	31113.61	3526.70		335.02
(Loss)	17017.79							16924.63					93.16	
Miscellaneous revenue	15,297.26				15,297.26									
Total	2,122,720.75	896,692.97	145,447.28	85,494.88	293,989.4	165,950.5	5506.86	172,774.47	15,864.19	4604.09	101,490.05	16,280.39	−13.6	35,353.46

Source Making up from Deutsch-Asiatishce Bank (1906c), *Zusammenstellung der Gewinn-und Verlustrechnungern per 31 December 1906*, in Historische Archiv of the Deutsche Bank

4.3 Financial Analysis of the DAB—Taking the Shanghai Head Office and the Branch Offices into Consideration

As for the ratio of each title of the accounts in the debtor side of Table 8, the largest account was bills receivable, which occupied 40% of the total, and within that account, foreign bill of exchange held 37%, which surpassed the 30.2% of the credit in the next rank below. In the trend of this ratio, a characteristic of the business activity of the foreign bank was shown explicitly. The ratio of securities occupied only 4.3% of the entire assets and was remarkably less than the 13% of cash/foreign currency. In addition, Capital Abzweigung, which was not mentioned in the balance sheet of the annual report as previously noted, was approximately 10% of the total, worth 4.37 million Sh.Tls.

Next, in the creditor side, stock capital of the prior-mentioned stockholders' equity in Table 8, was 7.54 million Sh.Tls. The size of Dotationskapital reached to two-thirds of the stock capital, and these two accounts held 29.5% of the total in the creditor side. Consequently, the compounded owned capital equalled a little under 40% of the total assets, if 4% of the various revenue reserve, general reserve, and all kinds of funds accounts and 3.5% of the net profit account are added. Though the content of the debt account was not explained, it was mainly a current account. The borrowed capital of this debt occupied 61% of the creditor side. Based on this capital composition, the financing in those days appeared to specially emphasise financial policy to cope with risk.

The role and the business activity of the Shanghai head office and those of the branch offices varied according to the country or the area in which each office was located. The characteristics of each office could be understood to some extent, if the trend of the accounts that reflected the business activity of each office is analysed.

First, in balance sheet of each office, the offices in which the total of the debtor side was less than the creditor side were illustrated by the Shanghai head office, the two branches offices in the China area (Tsinanfu and Peking), and the two German branch offices (Berlin and Hamburg), particularly in the Shanghai head office, where stock capital and the various revenue reserves and all kinds of funds accounts constituted the main part of the creditor side.

In addition, the four branch offices (Berlin, Hamburg, Tsinanfu and Peking) had a common characteristic on the debtor side—that is, the foreign bill of exchange was extremely low. For the Peking branch office, most of the office's assets consisted of cash/foreign currency and building and land, which clearly showed that the office hardly performed normal bank business.

In the other case, the offices in which the total of the debtor side was greater than the creditor side were exemplified by all the other offices. In those offices, the differences in the totals were not great; however, when considering the ratio of foreign bill of exchange and credit—a better indicator of the business activity of each branch office—the results were not as consistent.

Table 10 Business performance of each office (31 December 1906. Shanghai Tael, %)

Office's name	Total assets of offices		Salary roll (yearly)	Return on assets	Volume of trade		Returns	
	Value	%			Bill receivable	Credit	Foreign exchange profit	Loan interest
Shanghai	11,121,910.36	27.6	102,450	8.3	31.3	24.9	76.2	19.2
Tientsin	4,183,722.50	10.4	36,825	2.0	51.6	39.8	92.4	7.6
Calcutta	6,191,089.13	15.4	59,251		60.1	20.9	53.0	47.0
Berlin	2,866,923.69	7.1	46,392	8.8	0.0	84.6	0.0	6.7
Tsingtau	2,467,234.39	6.1	39,345	5.0	41.3	49.2	93.4	6.6
Hankow	281,165.85	0.7	17,900		0.0	69.9	91.9	8.1
Hongkong	4,410,434.00	10.9	44,772	1.3	30.2	23.4	109.8	−9.8
Tsinanfu	233,308.44	0.6	10,608	2.5	71.6	3.2	88.2	11.8
Peking	120,628.79	0.3	11,160		0.0	10.2	44.8	55.2
Yokohama	3,491,455.09	8.7	44,081	1.1	58.3	9.3	69.3	30.4
Singapore	2,116,136.74	5.2	35,955		30.9	30.7	78.3	21.7
Hamburg	246,070.92	0.6	20,528		1.6	93.7		
Kobe	2,577,923.94	6.4	30,276		62.6	7.6	99.1	0.9
Canton			8000					
Total	40,308,003.84	100.0	507,543	3.5	40	30.2	69.7	14.4

Source Synthesis Balance Sheet, Synthesis Profit and Loss Statemant, and Protokoll der Sitzung des Geschäft-Ausschusses der Deutsch-Asiatische Bank von 1. February 1911

Next, from the standpoint of the profitability in Table 9, foreign exchange gain[26] contributed remarkably in the effective performance of the DAB, which occupied 65.7% of the total profit. This contribution became the main profit source that was far beyond the 13.6% of the loan interest in the creditor side.

However, in Table 10, 'Business Performance of Each Office', the return on assets of the DAB in its entirety (14 offices) was 3.5%, but only six of the branch offices were profitable, while the other seven branch offices (Calcutta, Hankow, Peking, Singapore, Hamburg, Kobe and Canton) all suffered losses. Of the head office and six branch offices that were profitable, the large-scale offices with high constitution ratios, Shanghai (27.6%), Tientsin (10.4%), Berlin (7.1%), Tingtau (6.1%), Hong Kong (10.9%) and Yokohama (8.7%), held 70.8% of the total assets. Of those offices, Shanghai, Berlin and Tingtau were notable, where the return on assets of each office far exceeded the return on assets of the DAB in its entirety. In other words, the DAB was mainly supported by the performance of these three offices.

[26] Ando (1957), pp. 393–395.

4.4 *Internal Transaction Relations Among All the Offices in the DAB*

In Table 8, it is possible to identify the problem with the debtor side and the creditor side of each office. The credit and the debt in each office are shown clearly by the procedures previously mentioned. Further, the credit and the debt held by each of the offices represented the transaction volume of that office. Therefore, the accounts of an office were relative to those of the other offices in the DAB; in other words, the accounts within the credit of an office were in the debt of the other offices. For example, the credit of the Calcutta office to the Berlin office conformed with the debt of the Berlin office to the Calcutta office. If the credit and the debt of each office external to the DAB were to be assessed, based on the other business transactions, the internal transactions would need to be deducted from the transaction volume (credit or debt) of each office.

On the premise that the credit and debt accounts were correctly handled by each office, the business activity of the offices for the DAB in its entirety can be depicted by the ratio of the total of the transactions of each office to the total of all offices, as shown by Table 11, 'Internal Transaction Relations Between the Offices'. In this table, the business performance of each office can be scrutinized individually by the ratios of office credit/total credit and office debt/total debt.

From a quantitative point of view, Tientsin, Tsingtau and Hong Kong in the China area and Yokohama had relatively high ratios of both credit and debt. In these branch offices, the bulk of the transaction volume was occupied mostly by business external to the DAB, so these branches were evidently being operated in high degrees of self-sustaining management. Next, in the same Table, the ratio of each office to all offices in the aggregate can be recognized in the large-scale offices such as Shanghai, Calcutta, Berlin and Hong Kong. Shanghai (21.8%) and Berlin (28.1%) together accounted for nearly 50% of all the offices. Therefore, the internal transactions between the offices were obviously developed with the large-scale offices at the core of the DAB.

A general snapshot of the data in Table 11 has been illustrated in Fig. 3, 'Bird's-Eye View of Internal Transactions Relations Between the Offices in the DAB'. According to the results, the old offices and the new offices surely deepened the transactional relationship with the Berlin office. The old offices expanded the transactions with Germany and the new offices started activity by the support of credit from the Berlin office. In addition, offices like Calcutta were able to operate under the weight of excessive debt to the Berlin office.

Speaking in general, Shanghai was significantly important to the DAB as the financial centre in the East Asia. All the branch offices exhibited a tendency to strengthen their relationship with the Shanghai head office, because Shanghai was located on the intersection between the Chinese market and the overseas market. For this reason, the Shanghai head office played not only the central role in the management system of each branch office in the China area but also influenced those offices to have closer business relationships with the Shanghai area itself. However,

Table 11 Internal transaction relations between the offices (31 December 1906. Shanghai Tael, %)

Office's name	Office credit/total credit	Office debt/total debt	Total of our-and your account	%	Shanghai	Tientsin	Calcutta	Berlin	Tsingtau	Hankow	Hongkong	Tsinanfu	Peking	Yokohama	Singapore	Hamburg	Kobe
Shanghai	53.0	85.3	3,607,807.54	21.8		28.0	29.1	33.5	49.6	100.0	17.5	72.4	64.6	28.0	32.8	2.1	1.9
Tientsin	88.7	92.1	547,636.12	3.3	3.2	*14.4	0.2	2.6	0.4		0.9	3.6	33.5	1.1		0.4	1.1
Calcutta	82.4	65.8	2,032,381.14	12.3	12.0	0.6		24.9			8.4			11.9	2.5	0.7	6.6
Berlin	45.3	65.8	4,651,998.52	28.1	27.3	21.9	57.1		36.6		4.1			39.3	18.6	68.8	73.7
Tsingtau	97.2	72.6	686,233.98	4.1	4.0	0.5		5.4			0.8	21.9	0.5	0.8	0.0	1.9	0.5
Hankow	75.9	42.8	262,709.68	1.6	1.6												
Hongkong	61.9	77.4	1,110,402.31	6.7	5.4	1.7	4.6	1.0	1.4					6.7	44.0	1.6	7.8
Tsinanfu	36.5	97.4	303,959.25	1.8	1.8	2.0			9.7				1.4				
Peking	2.3	99.1	444,815.24	2.7	2.6	27.2			0.3			2.1					
Yokohama	74.0	80.6	526,485.88	3.2	3.1	1.0	3.1	4.5	0.6		3.2				0.1	6.0	4.2
Sngapore	56.5	58.9	961,267.70	5.8	27.3		1.7	5.6	0.1		55.9			0.2		1.3	2.1
Hamburg	67.2	72.0	157,481.39	0.9	0.9	0.1	0.1	2.3	0.4		0.2			1.8	0.1		2.1
Kobe	53.3	25.3	1,277,171.11	7.7	7.5	2.6	4.1	20.2	0.9		9.0			10.2	1.9	17.2	
Total			16,570,349.86	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source A Synthesis Balance Sheet (a simple version, 31 December 1906)
Note The ratio of each office to all offices on our account and your account in the aggregate is assessed at %

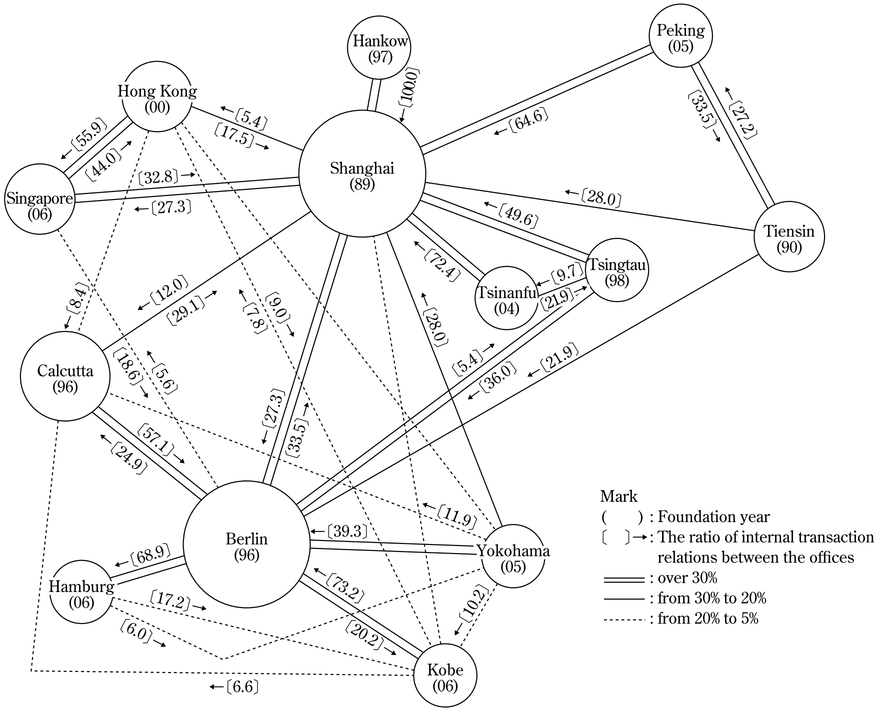

Fig. 3 Bird's-Eye View of Internal Transactions Relations Between the Offices in the DAB. *Source* Adopted from Akagawa (2009) with permission from the Society of Business and Commerce, Keio University

there were not as many internal, close transactional relationships among the branch offices themselves as there were among the core offices and the other offices—for example, we can see this in the percentage of transactions between Tientsin and Peking, Hong Kong and Singapore, Shanghai and Hankow and Tsingtau and the Tsinanfu.

As mentioned above, the main business area of the DAB was the entire Asian region. Particularly for the German colony, in the Shangdong Province, the ratios of two branches (Tingtau and Tsinanfu) were almost a 7% return on assets (Table 10) and nearly 6% for internal transactions (Table 11). The economic advance by Germany into the Shangdong Province, for which the Shangdong Railroad Company and the Shangdong Mine Company were founded as the centre of activity, was adopted aggressively. At the time, the role of the Deutsch-Asiatische Bank was significantly important to Germany, but it did not put restrictions on the colonial policy of imperialism in assessing the DAB business in its entirety. As a result, the Hamburg branch office primarily maintained relationships with the Berlin branch office, despite the increase of business in China by German trading companies. In Hamburg, transactional relationships between British overseas banks and German trading companies were remarkably strong, so the Hamburg branch experienced more difficulty in establishing business activity with those trading companies, as close relationships between the London money market and Asia were already subject to British overseas banks.

5 Conclusion

The activities of German banking in East Asia were initiated by the Deutsche Bank to undergo the transition to the gold standard. However, the Deutsche Bank was unable to open enough of the business market and respond to fluctuations in exchange rates. Consequently, it was forced to withdraw in a few years. Later, conditions for re-entry of German banking were brought about by an increase in foreign trade between Germany and East Asia, besides loan requests from East Asian countries.

Hence, under the leadership of the Disconto-Gessellschaft and with the support of the Prussian government, the DAB, in which most of the German major banks participated, was established as a business entity representing German interests in Asia. The characteristic of the DAB's management method was to install the head office in Shanghai, which was an economic centre in Asia linked with the international market, and keep close relationships between this office and the other Asian branches. Due to the Articles of Association, the overall corporate governance of the DAB was determined in Berlin. During the steady development of the economic situation in Asia, the core banking operation of the DAB was foreign exchange business—mainly transactions of bills receivable and lending to European trading companies, comprador capitalists, and local financial institutions. This is evident from the outcome of the DAB's business activities in 1906, when, for example, the head office and five branch offices accounted for 70% of the total assets of the bank and generated almost all profits based mainly on foreign exchange revenue. However, because the seven branch offices including the large-scale Calcutta branch posted losses, the proper selection of the branch office area and use of management method which conformed to the business environment were indicated to be extremely important in the development of the international banks. Furthermore, to be prepared for remarkably high risk in the overseas banking business, raising the capital adequacy ratio was necessary.

With the crisis of 1910 and the Xinhai Revolution of 1911, the DAB's core banking business was greatly affected and inevitably suffered. The phenomenon of major change was that the foreign banks were selected as escape routes for Chinese companies.

The DAB's foreign currency and cash holdings increased sharply, which resulted in a significant decline in the rate of return on assets.

Furthermore, in the German colony of Shangdong Province, the DAB established deep relationships with railway and mining management. Although the two branches of the DAB operating in that area played important roles, the business contribution from loans did not amount to a large proportion of the bank in its entirety.

Thus, the role of international banks was important not only from the perspective of the imperialism theory constrained by capital export, but also that of establishing trade finance infrastructure.

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Chapter 10
American International Banking in Asia: The Case of IBC in China

Ayumu Sugawara

Abstract The purpose of this chapter is to explore the nature of the business conducted by the branches of an American international bank, the International Banking Corporation (hereafter IBC). Although IBC had the largest foreign branch network among the US banks before World War I and it mainly focused on Asia, it was the latest entrant among major international banks in the East. The literature on American international banking before World War I clarified why expansion of foreign branch networks was restricted by their institutional background. However, it does not clarify the branch level activities of the US international banks due to limited access to archival materials. Therefore, even though only partially, we try to fill the gap based on newly explored archival sources. Consequently, we clarify the roles of four branches of IBC within its branch network: London Branch was the key for acceptance; Beijing Branch supplied funds to Shanghai Branch; Tianjin Branch focused on foreign trade finance; and Guangzhou Branch conducting both exchange transactions and fund supplies to Hong Kong Branch. However, competing with other banks, especially with British ones, IBC lagged because it had a similar business model to them and it was also a latecomer.

Keywords American international banking · Trade finance · Branch banking · China · Asia

1 Introduction

The purpose of this chapter is to explore the nature of the business conducted by the branches of the International Banking Corporation (hereafter IBC) in London and China. IBC was founded in 1902 as a bank chartered by the State of Connecticut, the USA, and had established a branch network mainly focusing on Asia. China was the focal point of international banking in Asia before World War II. However, of the various banks with a presence in China before World War I, American banks

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were the latest entrants as far as large countries were concerned. All major banks other than American IBC arrived in China during the nineteen century. For example, the Chartered Bank of India, Australia, and China established a branch in China in 1858. France and Germany attempted to establish bank branches in Shanghai in the 1860s and 1870s, respectively, but both failed—Germany in 1875 and France in 1889 (Yago 2014, pp. 1213–4; Akagawa 2014, pp. 1019–1031). Furthermore, the Hongkong and Shanghai Banking Corporation (hereafter Hongkong Bank) arrived in 1865, the Deutsch-Asiatische Bank set up its headquarters at Shanghai in 1889, the Yokohama Specie Bank came in 1893, the Russo-Chinese Bank arrived in 1895, and the Banque de l'Indochine came in 1898 (Ji 2003). On the other hand, IBC was founded in 1902 and its first branch was established in Shanghai also in 1902. IBC had the largest foreign branch network among all the American banks before 1914 not just in Asia but globally.

The literature on American international banking started from Phelps (1927) and can be divided into three groups as well as the literature on British international banking. The first group covers American banks that conduct international business as a whole, the second is on the histories of individual banks, and the third is on international comparison between American banks and those from other countries.

Phelps (1927) is included in the first group, as is Abrahams (1976). In the second group, Cleveland and Huertas (1985) on Citibank and Wilson (1986) on Chase Manhattan Bank (currently J. P. Morgan Chase) are examples of commissioned histories of individual banks. Therefore, being different from other researches, they are intensively based on in-house archival documents. Cleveland and Huertas (1985) dealt with the history of international banking conducted by Citibank (the National City Bank at that time) and IBC, which was acquired by the National City Bank in 1915 and completely absorbed by the bank in 1926. Pugach (1982, 1997) and Citigroup (2002) are examples of more recent works in the second group. Pugach (1982, 1997) deals with a US-China joint-venture, the Chinese American Bank of Commerce which was founded in 1919. Citigroup (2002) clarifies interesting personnel cases of IBC in Asia in the first half of the twentieth century such as recruiting British or Asian natives. In the literature in Japanese, Suto (1997) clarified the business of IBC before WWI based on Majima (1907).

Carosso and Sylla (1990) and Huertas (1990) are examples of work in the third group. Carosso and Sylla (1990) emphasised that investment banks based on partnership such as J.P. Morgan & Co. or Brown & Co. played a pivotal role in American foreign trade finance before 1914, as well as long-term capital imports, and it is a feature of American international banking. Huertas (1990), same as Jones (1990) for British international banks, adopted the concept of a multinational bank and revealed that after 1914, National City Bank established branches in Latin America at the request of their customer firms. However, Huertas (1990) insisted that among about 13,000 American banks, only eight had foreign branches before 1960 and the importance of international business for American banks as a whole lagged behind that of domestic ones.

Why expansion of foreign branch networks was restricted by American international banking institutions has been clarified in the literature. However, different from the literature on international banking from other countries, the headquarter-branch level activities of American international banks have not been clarified in the literature on American international banking. This is due to very limited access to archival materials of American banks. Therefore, the purpose of this chapter is, even though only partially, to fill the gap based on newly explored archival sources.

The rest of the chapter is structured as follows: Sect. 2 describes the development of US–China trade and investments from 1784 to 1939. Section 3 overviews the development of American Branch Banking Abroad. Section 4 provides an overview of the development of IBC from 1902 to 1926 as well as its business model. Sections 5 and 6 analyse the activities of the London and Beijing Branches, respectively. Section 7 explains the features of the Tianjin and Guangzhou Branches, both of which were located on trade ports. Section 8 concludes.

2 The Overview of US-China Trade and Investments: 1784–1939

The time lag present between the establishment of the US bank branches and bank branches of other major countries in China is significant. An obvious question that arises here is: was the US not interested in China or Asia economically in the nineteenth century?

The economic relationship between the USA and China goes back to 1784 when an American sailing vessel, the Empress of China, arrived in Canton (Guangzhou) from New York. Canton was the only open port for foreign trade in China from 1757 until the Nanking Treaty in 1842 (Latourette 1917, p. 13; Haddad 2013, pp. 7, 13). When the Empress of China arrived at Canton, already present were agents of East India Companies from England, the Netherlands, France, Denmark, and Sweden, as well as Portuguese merchants (Morse 1910, p. 81). The ship had ginseng and silver to exchange for tea. At that time, the tea trade was a lucrative business, but during the colonial period, American ships were prohibited from entering the Indian and Pacific Oceans under British mercantilist rules (Latourette 1917, pp. 10–4). After the independence of the USA to the 1820s, the tea trade between China and the USA was mainly conducted by seven US merchant houses: Perkins & Co., James Oakford & Co., Archer & Co., T.H. Smith & Co., Olyphant & Co., Russell & Co., and Wetmore & Co. (Hao 1986, p. 19).

During the early stages of the Canton trade, China had recorded large surpluses in goods trade. Thus, for the British and American merchants, the two largest tea importers, finding the means of settlements for tea imports was crucial (Latourette 1917, p .27). Finally, British depended on exports of opium to China from India. For American merchants, silver continued to play a key role in the exchange for tea (Latourette 1917, pp. 26–7; Hao 1986, p. 26). However, in the 1820s, a financial innovation took place—bills on London. In the middle of the decade, London merchant bankers, such as Barings, started issuing letters of credit to major American houses such as Perkins & Co. During the treaty ports era, after the first and second Opium Wars, the bills on London played a major role in trade between the USA and China, alongside the export of gold and silver from the USA. For example, in 1860, for Augustine Heard & Co., a prominent American house at the time, the bills on London consisted 75% of its means of payment for tea purchase in China. During the period from 1870 to 1894, the bills on London accounted for one-third of the American payments to China (Latourette 1917, pp. 27–8; Hao 1986, pp. 24–6). With respect to foreign trade, particularly imports from China, until the 1860s, the US was China's second largest export destination after the Britain and Hong Kong combined (Fig. 1), although the exports from the US to China was still very small (Fig. 2). By the 1860s for American trade with China, tea and clippers were strongly integrated (Hao 1986, p. 27). From the 1860s until 1891, with regards to banking, partners of American houses, Augustin Heard & Co. and Russell & Co., had occupied seats of the court of directors of the newly established Hongkong and Shanghai Banking Corporation (King 1987, pp. 166–181).

However, during the 1870s, the era of tea clippers ended due to the opening of the Suez Canal in 1869 and improvements in steam ships (Wilkins 1986, p. 262). Simultaneously, the weight of American imports in China's trade stagnated. On the other hand, countries in Europe rapidly increased their imports from China. American old houses failed successively—Augustine Heard & Co. in 1874 and Olyphant & Co. in 1878. While the old structure was becoming obsolete, the exports of American manufactured goods to China increased and were at par with the pace of exports from Europe and Japan. Newer trading firms, such as the American Trading Company, began exporting to China and Japan. The American Trading Company was established as the American Clock and Brass Work Company of Connecticut in 1877.

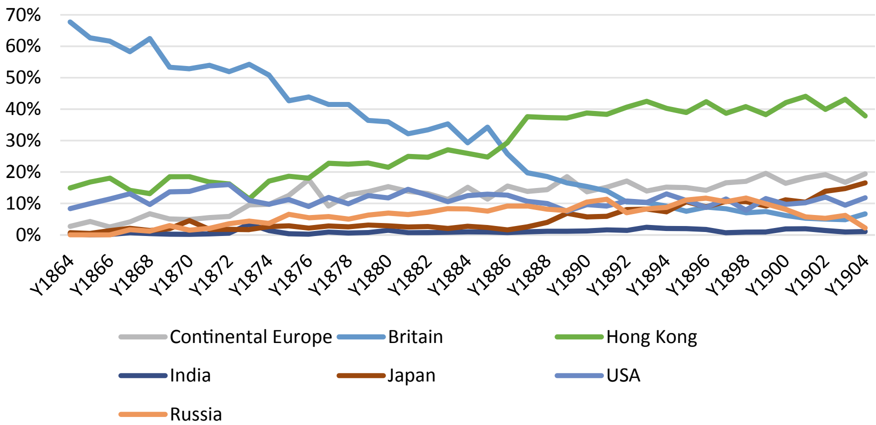

Fig. 1 Chinese exports: 1864–1904. *Source* Hsiao (1974)

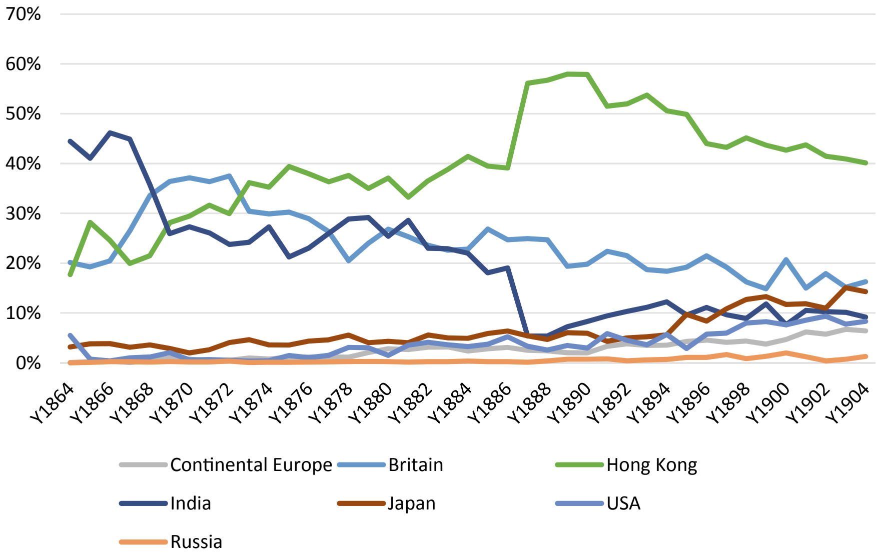

Fig. 2 Chinese imports: 1864–1904. *Source* Hsiao (1974)

It opened office in Shanghai in 1879, and then changed its name to the American Trading in 1884 (Wilkins 1986, pp. 262–263).

From the 1880s, American exports to China increased and gathered pace after the mid-1890s (Fig. 2). However, the Americans did not establish their own foreign trade finance network, neither in China, nor in Asia as a whole or in Latin America. One major reason behind this was the American banking regulation. The National Banking Act of 1864 prohibited national banks from establishing branches abroad and from accepting the bills of exchange (Phelps 1927, p. 92). The other reason was the relative size of Asian trade, which was considerably small, compared to American trade as a whole. Although Asian trade was growing, for the USA, it still constituted a small portion—less than 5% of American total exports until 1900 (Fig. 3). In American imports, Asia got around 15%, however it was far behind imports from Europe and Latin America (Fig. 4).

So who financed American trade before the First World War? Although the details are still unknown, it is assumed that British international banks, as well as British merchant banks and their subsidiaries in the USA, provided such services to the Americans (Jones 1993, p. 16). However, since the late 1880s, a few American trust companies started establishing foreign branches (more details are in Sect. 3). Trust companies were under state regulations and some states allowed trust companies, as well as state-chartered banks, to expand abroad. Their first destination was London, and not Asia or Latin America. Similar to the French, German, or Japanese banks, it was necessary for US banks or trust companies to have an office in London in order to enter trade finance based on the sterling-denominated bills of exchange (Michie 2012, pp. 24–6; Nishimura 2014, p. 91).

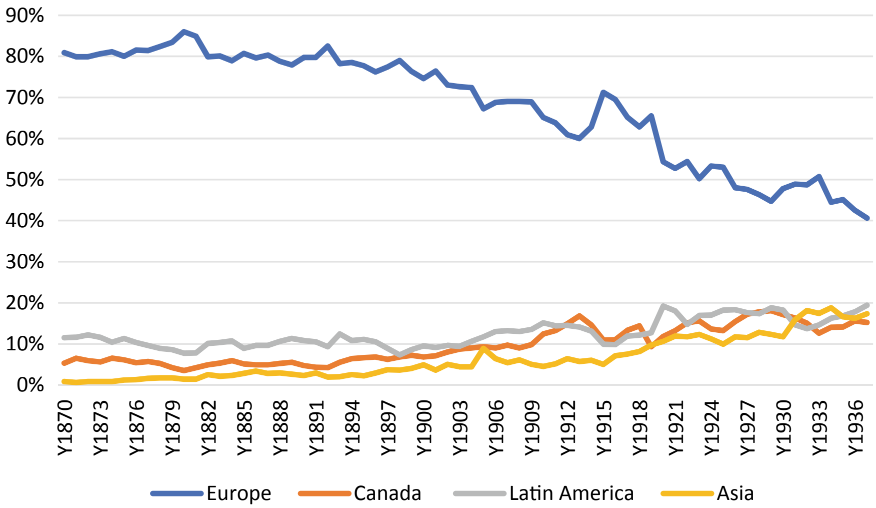

Fig. 3 American exports: 1870–1940. *Source* Cater et al. (2006)

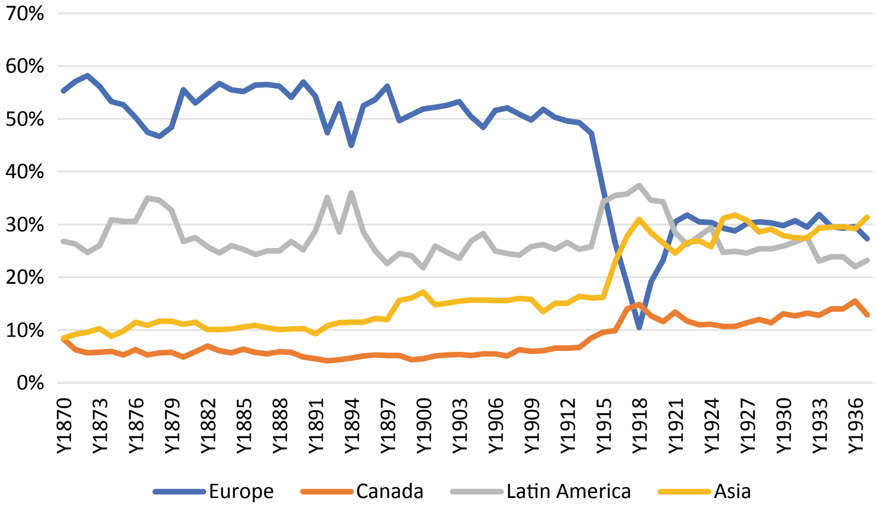

Fig. 4 American imports: 1870–1940. *Source* Cater et al. (2006)

For American international banking in Asia, the 1890s witnessed two international political events that had huge impacts on both Asia and the USA: the Sino-Japanese War of 1894–95 and the Spanish-American War of 1898. The defeat of Qing in the war against Japan opened up greater political and economic opportunities in China for Western powers and Japan. With the victory in the latter war, the USA secured a dominant position in the Caribbean Sea, including Cuba, and colonialised the

Philippines in Asia. However, even with such imperial progress, the USA remained a smaller power in the larger scenario of international politics in Asia. With regard to foreign investments in China in 1902, including both direct and portfolio, the USA had only 2.5% compared with Britain's 33.0%, Russia's 31.3%, Germany's 20.9%, and France's 11.6% (Remer 1933, p. 76). Furthermore, it had no territory lease (although it had settlements in treaty ports), no realised railroad concession (although it had unrealised Hankow-Canton railroad concession), and no participation in large government bond issues. This situation triggered the well-known "Open Door" notes by John Hay in 1899 (Israel 1971, Chap. 1).

After losing the Hankow-Canton railway concession in 1904 (Remer 1933, pp. 258–9), USA started focusing on Manchuria. Edward Harriman, an American railway tycoon who wanted to make his own global transportation service consisted of trans-continental railways in the USA and Eurasia and ship lines, was at the forefront of the move. The Harriman plan was quite interesting and remarkable, but his sudden death in 1909 marked the end of it (Dayer 1981, p. 19).

In 1910, only realised Chinese government loan issue for American was brought by the combination of the legacy of Hankow-Canton line concession and the Taft administration's "Dollar Diplomacy". In May 1910, Taft directly pushed for a loan agreement with the Three Power consortium of Britain, France, and Germany (King 1988a, pp. 434–5). Consequently, an American group, comprising J. P. Morgan, Kuhn Loeb, National City Bank, and Chase National Bank, was accepted by the Three Power consortium and which then became a Four Power consortium.

The Americans thus became a member of a Chinese loan consortium led by Britain, particularly Hongkong Bank. It paved the way for the Americans to join the negotiation in 1912 for the "Reorganisation" Loan after the newly emerged government took charge in the Republic of China following the Xinhai Revolution of 1911. Subsequently, the consortium was further extended to Six Power to include Russia and Japan, as well (Remer 1933, p. 271).

As was shown in the Taft case, Chinese government loan issues were not just a financial arrangement, but also a highly political matter. Here again, politics shook the American bankers. Just after coming to power in March 1913, the new US President Woodrow Wilson declared that his administration refused to support the Six Powers' loan to the Chinese Republic (Israel 1971, p. 107). Without government support, the American group was forced to withdraw from the Six Power consortium and the Reorganisation Loan. Immediately after the American group left, in May 1913, the now Five Power consortium issued a loan to the Republic of China worth £25 million (Dayer 1981, pp. 26–7). The American banks missed the business. Consequently, among foreign investments in China in 1914, the USA still had just small share, 3.1%, on the other hand, Britain dominated 37.7% followed by Russian 16.7, German 16.4, Japanese 13.6, and French 10.7 (Remer 1933, p. 76).

However, as World War I broke out, the consortium had to leave out Germany due to the conflict. The now Three Power consortium of Britain, France, and Russia then invited the American group again. This time, the US Department of Treasury inclined towards cooperation with the consortium, and J. P. Morgan was appointed as the manager of the American group by the Department. After the USA entering the war in 1917 and forging cooperation with the Allies, in 1918, Wilson agreed to support the new consortium that included the American group. In addition, the President wanted to invite Japan in the new consortium because he worried that outside the consortium Japan would monopolise the loans to China (Dayer 1981, pp. 49–54, 78, 82). Finally, the new Four Power consortium of the USA, Britain, France, and Japan was organised. As a diplomatic manoeuvre by the USA for Japan, parts of Manchuria and Mongolia were treated as Japan's sphere of influence and excluded from the field of loans by the new consortium.

Although the USA returned to the investment scene in China, the Four Power consortium, the US bankers, and diplomats faced new challenges in the international politics in North Asia—the rise of Chinese nationalism and the newly emerged Soviet Union's socialism. In 1921, the American group in the consortium tried to reopen loans as the first tranche of the Reorganisation Loan Scheme. However, during the negotiation in Beijing, the Chinese government refused to accept the loan because it was to be provided by a consortium (Dayer 1981, p. 103). This resentment towards the consortium was partly caused by the development of a domestic modern banking system in China. The Chinese bankers strongly opposed accepting the consortium loans (Dayer 1981, p. 104).

In addition, American bankers failed to invest in the Chinese Eastern Railway, which was originally a Russian concession. After 1919, taking the foreign debts of the Chinese Eastern Railway as a clue, the consortium, especially the USA, tried to control the railway company. However, in a Washington Conference subcommittee in 1922, the Chinese delegation declined the recommendation of international control of the Chinese Eastern Railway through loans from the consortium or the USA (Dayer 1981, pp. 102–3). With the Sino-Russian Treaty of 1924, the Chinese Eastern Railway came under joint control of Soviet Union and China (Dayer 1981, pp. 102–184).

In short, far different from the Pre-WWI era, the new consortium in the 1920s never played a pivotal role in Chinese external finance (King 1988b, pp. 98, 116–7), nor did the American group ever issue a large-scale loan to the Chinese government in the scheme (Remer 1933, p. 295). In 1922, Sir Beilby Alston, a British minister, wrote to Lord Curzon: "whereas in 1913 an international loan to China was an exceedingly profitable transaction in 1922 it cannot be said to have the same attraction" (Dayer 1981, p. 127). It is applicable to the US bankers, too.

In spite of such a decline of loan issue business, Britain was still dominant in foreign investments in China having 36.7% although Japan sharply caught up with 35.1%. Compared with these two countries, America's share, 6.1%, was far smaller although it had increased (Remer 1933, p. 76).

However, in contrast to long-term investments, following World War I, the relationship between the USA and China, as well as Asia as a whole, expanded with respect to foreign trade. This was especially seen in American imports during the 1920s and 1930s in which Asia held a dominant 30%—the same share of imports as that of Europe and Latin America individually (Fig. 4). In terms of exports from the USA, Europe was still dominant with approximately a 50% share even after WWI. However, US exports to Asia gradually increased, becoming more than 10% in the 1920s and 15% in the 1930s (Fig. 3). Asia caught up with Canada and Latin America as a destination for American exports.

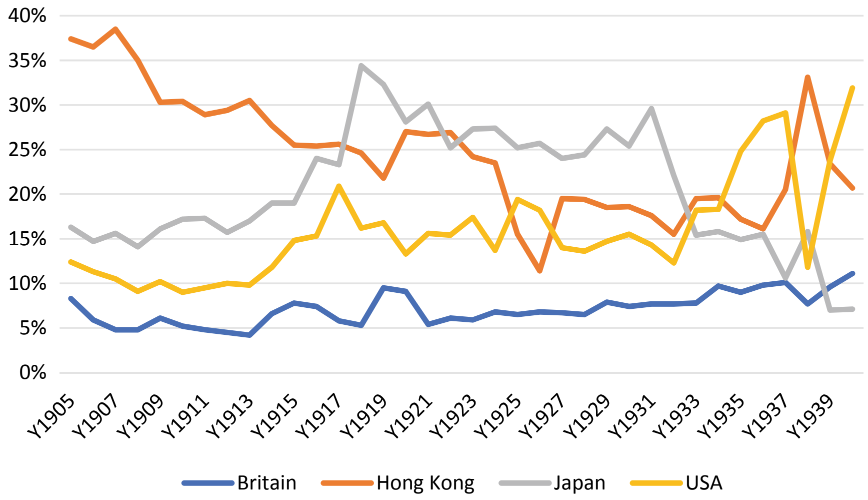

Fig. 5 Chinese exports: 1905–1940. *Source* Hsiao (1974)

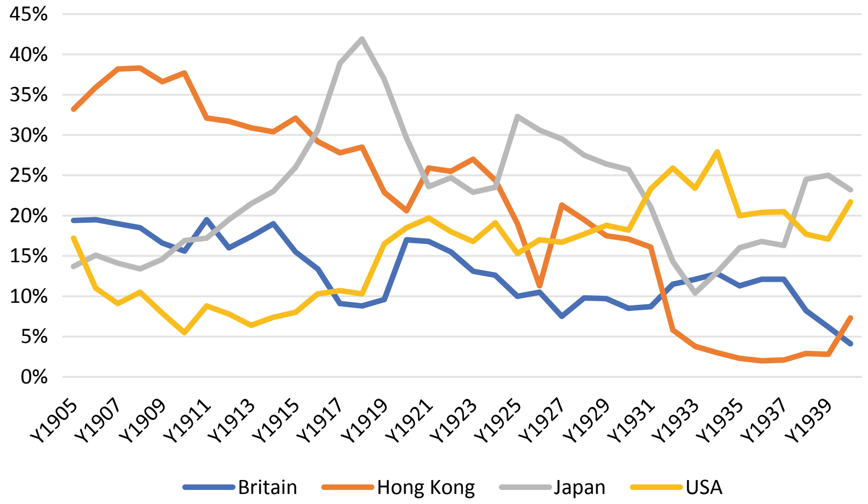

Fig. 6 Chinese imports: 1905–1940. *Source* Hsiao (1974)

From China's position, the proportion of trade with the USA became larger during the same period. In the 1920s, exports to the USA grew to about 15% of total Chinese exports and in the late 1930s, it reached approximately 25% (Fig. 5). In imports too, trade with America became between 15 and 20% in the 1920s and reached more than 25% in the middle of 1930s (Fig. 6). In the inter-war period, foreign trade finance finally provided a business opportunity to American international banks in Asia.

3 The Development of American Branch Banking Abroad

The establishments of foreign branch by American commercial banks including trust companies had begun by the Jarvis-Conklin Mortgage Trust Company in 1887 to set its London branch. The Jarvis-Conklin Trust was acquired by the Equitable Trust Company in 1912 and the latter succeeded the London Branch (Phelps 1927, p. 133). Before 1900, other than the Jarvis-Conklin Trust, only the Guaranty Trust Company had its London Branch (Phelps 1927, p. 137). After 1900, the newly established International Banking Corporation born in 1902 rapidly constructed its branch network in Asia. In 1902, competing with the IBC, the Guaranty Trust also established its branches in Asia (Shanghai, Hong Kong, and Manila). However, the Guaranty's Asian Branches were sold to the IBC in 1904 (Suto 1997, p. 186). As a result, until 1917 only IBC was the American bank which had branches in Asia.

Table 1 shows foreign branches of American commercial banks in 1913. In the year, American commercial banks as a whole had 26 foreign branches which were owned by only six banks and trust companies. However, compared with other major countries, the number of foreign branches of American banks was far smaller. British banks had 2279 foreign and colonial branches, the French had 175, the German had 70, and the Dutch had 68 (Lewis 1938, pp. 191–193). The reason brought such situation was, as mentioned in the previous section, that the National Banking Act of 1864 restricted a national bank to establish a foreign branch. Therefore, until 1913, among American banks, only four state-chartered banks and two state-chartered trust companies had foreign branches.

Of 26 foreign branches of American banks, the IBC had 16 (61.5% of the total). IBC branches spread through London, Asia, and Latin America. The second largest number of foreign branches, four, was held by the Continental Banking and Trust

Table 1 Geographical distribution of foreign branches of American Banks: 1913

	London	Paris	Asia	Latin America	Total
IBC	1		12	3	16
CBTC				4	4
Equitable	1	1			2
Guaranty	1				1
Farmers'	1	1			2
Empire	1				1
Total	5	2	12	7	26

Source Lewis (1938), pp. 193–194, 197
**IBC* International Banking Corporation; *CBTC* Continental Banking and Trust Company

Company of Panama (hereafter CBTC) which was the joint-venture owned by West Virginia capitalists and located in Latin America (Phelps 1927, p. 156). All other foreign branches of four trust companies were in London or Paris. Thus, also only IBC had branches both in developed countries and developing areas. Geographical distribution of the 26 foreign branches was as follows: 46.2% in Asia and each 27.0% in Europe and Latin America. All in all, before World War I, within American Branch Banking Abroad, the IBC's foreign branch network was dominant.

After World War I, the number of foreign branches of the US banks sharply increased (Table 2). There were two main reasons which caused such rise of American foreign branch banking. The first is the introduction of the Federal Reserve Act of 1913 which permitted national banks to have foreign branches (Lewis 1938, p. 195). Consequently, especially the National City Bank rapidly expanded the number of

Table 2 Number of foreign branches of American Banks: 1913–1935

	1913	1919	1920	1924	1926	1929	1933	1935
American Trust						1		
Bank of America							1	1
Bankers' Trust			1	2	2	2	2	1
Chase National Bank					3	3	4	6
Chase Bank							5	4
Empire Trust	1	1	1	1	1	1	1	1
Equitable Trust	2	2	2	4	4	4		
Equitable Eastern				2	2	2		
Farmers' Loan and Trust	2	2	2	1	1			
First N'l Bank of Boston		1	1	2	2	4	12	12
Guaranty Trust	1	5	7	8	8	8	8	8
National City Bank		49	57	41	51	72	78	69
Bank of Haiti					10	11	12	12
IBC	16	27	29	32	22	9	3	3
N'l City Bank France				1	1	2	2	1
American Foreign Banking		9	19	3				
Asia Banking Corp.		8	9					
BCSA				23				
CBTC	4	4	4					
Mercantile Bank of America		44	45					
Park-Union Foreign Banking		4	4					
	26	156	181	120	107	119	128	118

Source Phelps (1927), p. 211, Lewis (1938), p. 197
*Chase Bank was a subsidiary of Chase National Bank; Equitable Eastern Banking Corp. was a subsidiary of Equitable Trust; Bank of Haiti, IBC, and National City Bank France were subsidiaries of National City Bank. *BCSA* Bank of Central and South America

its foreign branches from just one in 1914 to 49 by 1919 (Cleveland and Huertas 1985, p. 324). Further, the National City Bank acquired the IBC which also increased the number of its foreign branches from 16 in 1913 to 27 in 1926. As a result, in 1919 the combination of the National City Bank and its subsidiary after 1915, the IBC, dominated 48.7% of the total number of American commercial banking foreign branches that was 156.

The second reason is the successive establishment of joint-venture international banks. Following the first joint-venture international bank, CBTC, established in 1913, during 1915–1919, four such joint-venture banks were born (Phelps 1927, pp. 154–159). Firstly, in 1915 the Mercantile Bank of America was organised by Brown Brothers, J. W. Seligman & Co., and so on. The Mercantile Bank had its branches in Europe and Latin America. Secondly, in 1917, the American Foreign Banking Corporation was incorporated by 34 US banks and one Canadian bank and the bank had branches in Latin America and Asia (China and Philippines). Thirdly, the Asia Banking Corporation was established by the Guaranty Trust, the Bankers' Trust, and so forth. The corporation set branches in Asia (China, Philippines, Singapore, and Japan). Lastly, in 1919 the Park-Union Foreign Banking Corporation was created by the National Park Bank and the Union Bank of Canada. The Park-Union Bank also had branches in Asia (China and Japan). Consequently, in 1919 the four joint-venture international banks altogether had 69 foreign branches (44.2% of the total). Among the four banks, the Mercantile Bank of America was the largest and having 44 foreign branches (28.2%) (Table 2).

However, all the joint-venture international banks were just short-lived. CBTC was liquidated in 1922. The Park-Union Bank was absorbed by the Asia Banking Corporation in 1922, however, the Asia Banking Corporation was also swallowed by the IBC in 1924. The American Foreign Banking Corporation, too, was acquired by the Chase National Bank, one of the largest national banks like the National City, in 1925. The Mercantile Bank of America, the largest joint-venture international bank, was reduced its capital and re-organised in 1922 by J. P. Morgan & Co., the Guaranty Trust, Brown Brothers, J. W. Seligman, and so on to become the Bank of Central and South America. However, the Bank of Central and South America was also absorbed by the Royal Bank of Canada. The reasons of the failures of the joint-venture international banks in the early 1920s were the lack of experienced personnel on international banking in the USA and the blow of the 1920 crisis as a collapse of the boom during World War I (Phelps 1927, pp. 164–166; Lewis 1938, pp. 196–197). Consequently, the successive acquisitions of the joint-venture international banks by the IBC or the Chase National brought the consolidation of American international banking into a handful groups of the larger independent banks.

In 1926, all of 107 foreign branches of American banks were held by independent banks or their wholly owned subsidiaries such as the IBC under the National City and joint-venture international banks had disappeared. The geographical distribution of the foreign branches in the same year was as follows; 25 in Europe (23.4% of the total), 61 in Latin America (57.0%), and 21 in Asia (19.6%) (Phelps 1927, p. 212). Compared with the situation of 1913, the weight of Asia dropped and that of Latin America largely increased. Within Latin America, Cuba was the largest host and accepted 26 branches (24.3% of the total). The decrease of the number of the American banks' foreign branches following the 1920 crisis finally stopped in the middle of the 1920s. Then in the 1930s, even under the Great Depression, such decrease in the number of foreign branch never happened. This means that the consolidation of international banking in the USA strengthened the larger independent banks in the country and their foreign branches could survive the severe impact of the Great Depression.

Unfortunately, no data is available which shows the profits of American international banks as a whole. However, Cleveland and Huertas (1985) clarify the profits of National City Bank's international business (Fig. 7). In the 1920s National City's international business earned higher level of profits. However, due to the Great Depression, its international business suffered huge losses through 1930–1934 except for 1931. After 1935, the international business profits gradually and steadily recovered. During the inter-war period, for National City, profits of international business were larger than that of domestic business through 1922–1926, and 1931, 1937, and 1938, respectively.

The prominent features of American international banking in the inter-war period were that by the mid-1920s independent and purely overseas-oriented banks totally disappeared and that international banking become an integrated part of a large domestic bank which diversified into international arena. This means that the US international banking in the inter-war period adopted a different model from Britain, France, and Japan. Britain had a lot of independent and specialised overseas banks by the end of the 1950s. France also kept some independent colonial banks such as

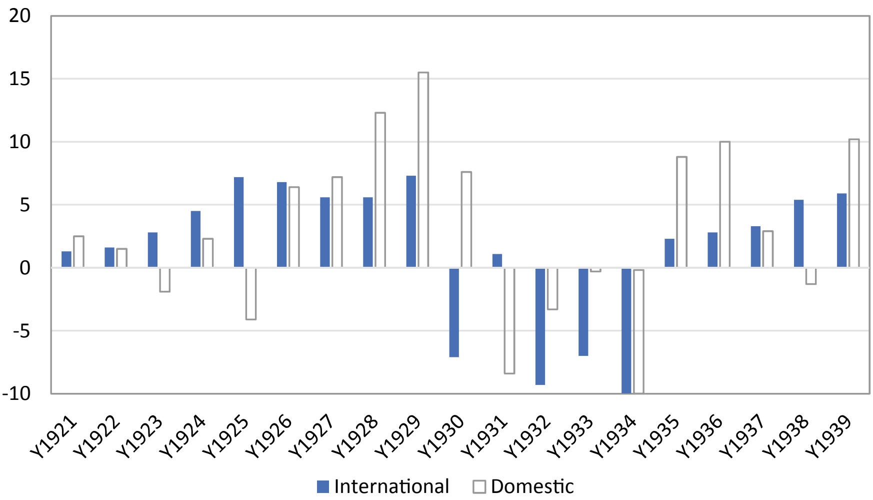

Fig. 7 Profits of National City Bank, 1921–1939: domestic and international businesses (US$ million). *Source* Cleveland and Huertas (1985), pp. 126, 206, 321. *In 1934, Loss from the international business was US$35.2 million and loss from the domestic business loss was US$22.9 million

Banque de'l Indochine by the end of the 1950s. Japan, too, by the end of World War II, had a large specialised overseas bank, Yokohama Specie Bank.

Throughout the inter-war period, in the USA, international branch banking facilities were integrated into large domestic banks such as the National City Bank, the Chase National Bank, the First National Bank of Boston, and the Guaranty Trust. The National City Bank acquired the IBC in 1915, the Bank of Haiti in 1925, and the Farmers' Loan and Trust in 1929 (Phelps 1927, pp. 145–146; Cleveland and Huertas 1985, pp. 153–156). The Chase National Bank absorbed, as above mentioned, the American Foreign Banking Corporation in 1924 and merged with the Equitable Trust in 1930 (Wilson 1986, pp. 14–15). While having branches in Europe, Equitable Trust had also stood on Asia through its subsidiary, the Equitable Eastern Banking Corporation established in 1920, which had branches in Shanghai and Hong Kong (Phelps, 1927, pp. 135–136).

Summarising the development of American international banking in the inter-war era, in 1935 American commercial banks and trust companies had 118 foreign branches and among of which the National City Bank and its subsidiaries dominated 85 (72.0% of total), the First National Bank of Boston had 12, the Chase National Bank and its subsidiary had 10, and the Guaranty Trust had 8 (Table 2). This reflected the rapid progress of consolidation of international banking into a handful large domestic banks in the USA. Such large integrated US banks would play a pivotal role in international banking of post-World War II era.

4 The Development of IBC: 1902–1926

IBC was founded in 1902 as a bank chartered by the State of Connecticut and had established a wide branch network mainly in Asia. The circumstances leading to its founding are elucidated by Cleveland and Huertas (1985) as follows:

> In 1901 Marcellus Hartley, a Connecticut industrialist and developer of the Remington Arms Company, together with General Thomas H. Hubbard, a lawyer and businessman, and several other prominent men interested in promoting trade with the Far East, organized the International Banking Corporation (IBC) under a special charter from the Connecticut legislature. After the U.S. victory in the Spanish-American War and the acquisition of the Philippines, there was much interest in business and financial circles and in Washington in developing trade with the Orient. IBC was one manifestation of that interest. Hubbard was named chairman of the new corporation and Hartley president. The latter died soon thereafter and somewhat later Hubbard became president as well as chairman. (Cleveland and Huertas 1985, p. 80)

They subsequently said:

> Hubbard was the driving force in the expansion of IBC. After opening its first branch in London in April 1902, he started a Far East network with a branch in Shanghai (May 1902) followed by branches in Manila and Singapore (July 1902). He copied the structure and raided the personnel of the British overseas banks, IBC's main competitors in the Far East. By 1914 IBC had a home office at 60 Wall Street in New York, branches in London, Panama,

> and San Francisco, and a network of sixteen branches in China, Japan, and other Far Eastern countries, staffed for the most part by Englishmen and Scots. IBC was not the only American-owned bank with branches overseas before World War I, but it was certainly the largest and most successful. (Cleveland and Huertas 1985, p. 81)

IBC from the start had a close connection with the US Government. For example, *the Times* (2 January, 1902) showed that in 1902 the US Government nominated the newly-created IBC as its agent for receiving the American portion of the Boxer Indemnity. Suto also pointed out that in 1904 IBC was nominated, together with the Guaranty Trust Company, as co-agents for the Philippine Colonial Government in New York (Suto 1997, pp. 247–248).

Despite this favoured status, due to registered in a state other than New York, IBC was at a disadvantage in its New York business where it headquartered compared with the New York state-chartered trust companies such as Equitable Trust and the Guaranty Trust. According to Suto, "Under the New York state legislation IBC was treated like a foreign bank which was different from banks or trust companies established under the state legislation. Foreign banks in New York were prohibited from accepting deposits, discounting bills, and issuing promissory notes." (Suto 1997, p. 189)

Figure 8 shows the movement of IBC's balance sheet size from its foundation in 1902–1927. IBC became a subsidiary of the National City Bank of New York in 1915. The fundamental structure, however, of IBC was maintained until December 1926 when IBC handed over most of its branches to the National City Bank (*Bankers' Almanac and Year Book* 1927, p. 1476). Only branches at San Francisco, Cebu,

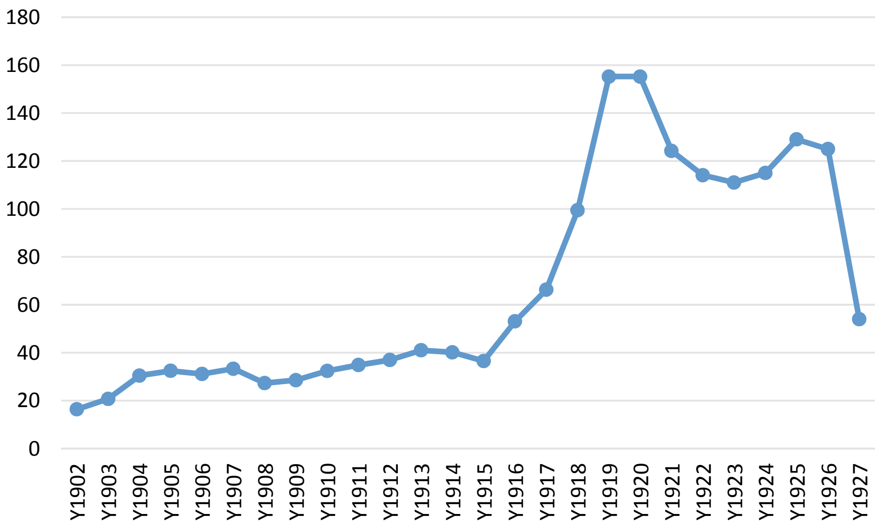

Fig. 8 Total assets of the IBC: 1902–1927 (US$ million). *Source Economist Banking Number, Banking Almanac, and Bankers' Almanac and Year Book*

Manila, Barcelona, and Madrid were left in the hands of IBC. By this action, the balance sheet total of the bank in 1927 was shrunken by a wide margin.

Then what was the relative magnitude of IBC's business among the international banks in Asia before 1926. From 1905 to 1913, Nishimura (2004) had already shown the balance sheet sizes of major international banks in Asia. According to Nishimura, taking annual average balance sheet sizes during 1911–1913, the Hongkong Bank's total assets amounted to £39.5 million. It is followed by the Yokohama Specie Bank's £36,7 million and the Chartered Bank's £26.5 million. The size of IBC was £7.6 million, which is the smallest in the table of Nishimura (2004, p. 5).

If we compare the size of IBC to that of the Hongkong Bank, the leader in Asian international banking, IBC's annual average total assets during 1911 and 1913 was only 19% of that of the Hongkong Bank. Following this calculation, we compare the sizes of major international banks after World War I in Fig. 9. In 1926, IBC' size was still 33% to that of the Hongkong Bank.

Unfortunately, the published data about IBC did not show even the profit and loss accounts of the bank. Fortunately, however, the Frank Vanderlip Papers held at the Columbia University, New York, included the half-yearly profit data of IBC from June to December in 1915 and 1916 (Table 3) even though it only covers very short period.

In IBC's profit and loss document, definition of some of the calcifications of branches in 1915 differs from that of 1916. In contrast to 1915, the outstanding 1916 balances of the Yokohama Branch included the Kobe Branch's figures, the Shanghai Branch figures included the Hankow Branch ones, and the Hong Kong Branch figures

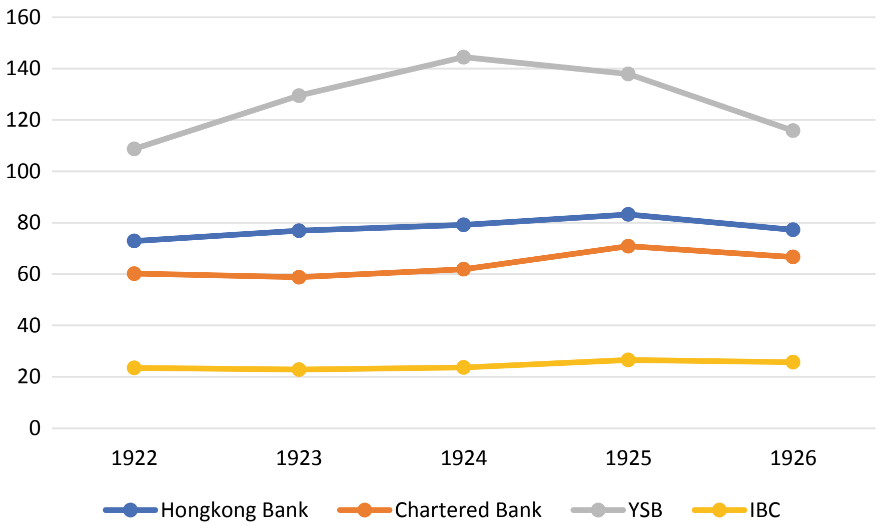

Fig. 9 The total assets of the major international banks and IBC: 1922–1926 (£ million). *Source Economist Banking Number* and *Bankers' Almanac and Year Book* *YSB = Yokohama Specie Bank

Table 3 Half-year profits of IBC Branches in 1915 and 1916 (US$)

Estimated profit and loss (31 December 1915)		Profit and loss account (31 December 1916)	
Head Office (New York)	279,679	New York	210,000
Less reserve for German Exch.	−19,396	San Francisco	7000
Yokohama and Kobe	170,000	Panama	23,000
Shanghai and Hankow	108,400	Yokohama	150,000
Hongkong, Canton and Singapore	78,100	Shanghai	129,000
Manila and Cebu	121,500	Hongkong	144,000
Bombay and Calcutta	5400	Manila	98,000
London	5000	Bombay	12,000
San Francisco	0	Calcutta	15,000
Sub total (1)	748,683	London	24,000
		Sub total (1)	812,000
Less		Less	
Panama	−2500	Medellin	−7000
Peking	−5700	Peking	−15,000
Sub total (2)	−8200	Sub total (2)	−22,000
Provision for losses, etc.			
Adjusting branch sterling capital	−36,750	Deduct	
Adjusting interned marks	−5000	Securities depreciation (3)	−73,000
Writing down securities	−64,053		
J.E. Dockendorff Co.	−10,000	Writing off	
Franch case in San Francisco	−45,000	Hankow property (4)	−27,000
Additional improvement for Hankow	−5000		
Additional improvement for Peking	−5000	Transferred	
Opening Tiensin Branch	−10,000	Special reserve (5)	−200,000
Sub total (3)	−180,803		
Net profit for 6 months(1) + (2) + (3)	559,680	(1) + (2) + (3) + (4) + (5)	490,000

Source For 1915, Estimated Profit and Loss, 31st December 1915, Frank Vanderlip Papers, E27, International Banking Corporation, the Colombia University. For 1916, Memo. For Mr. Vanderlip, from International Banking Corporation, P. & L. Account, for Six Months ended 31st December 1916, A, Austin. Oscar Phelps, National City Bank Memos, 1917, Frank Vanderlip Papers, the Colombia University

included those from the Guangzhou and Singapore Branches. Table 3 shows that the New York Head Office earned the largest profits both in 1915 and 1916, followed by the Yokohama Branch (the Yokohama Branch + the Kobe Branch in 1915). The third largest profit earners were the Manila and Cebu Branches in 1915 and the Hong Kong Branch in 1916. In 1916, many branches earned larger profits than in 1915. Compared to many other branches, the London Branch's profits were small both in

1915 and 1916. As full data are not available, it is difficult to decide whether the reason for the London Branch's low profitability was the impact of World War I or IBC's basic operations throughout New York, London, and Asian port cities.

One of the critical challenges for IBC, particularly in its early years, was personnel. As cited above, Cleveland and Huertas (1985) said "by 1914 IBC was staffed for the most part by Englishmen and Scots." Phelps (1927, p. 164), Meyers (1973, p. 9), Pugach (1982, pp. 183, 193), King (1988b, p. 16), and Citigroup (2002, p. 30) all emphasised the personnel problem, not just for IBC, but also American international banking in Asia as a whole.

To deal with the personnel problem, IBC hired several English and Scottish employees from British overseas banks. Citigroup (2002, p. 30) said "this initial hiring set the pattern for one of IBC's common practices in its early days in Asia—emulating the structure and raiding the staff of British overseas banks." In particular, the model that IBC emulated was that of the Chartered Bank of India, Australia, and China, and not that of Hongkong Bank even though both Chartered Bank and Hongkong Bank were major British overseas banks in Asia. According to Nishimura (2012a, p. 78, 2012b, pp. 118–121), the former was a purely foreign exchange-oriented bank and the latter adopted a combination of foreign exchange and bond issuing businesses.

These practices can be seen in a number of instances. For example, at the time of the bank's establishment, the general manager of its New York headquarter was John Lee, who was from the Chartered Bank and had worked for the latter for 22 years, 19 of which were in Asia. At the same time, the IBC Manila branch manager also had worked for the Chartered Bank for 15 years. Additionally, the Shanghai Branch chief clerk's case is also suggestive, even though he was not English or Scottish. The first chief clerk of the Shanghai Branch was Candido Ozorio, who was Portuguese and previously had 14 years of service with the Chartered Bank. Ozorio implemented the business practices of the Shanghai Branch—a key branch in Asian banking—because the branch manager did not have banking experience; Ozorio remained in the position for 32 years before retirement from IBC. Ozorio said the practices of the branch "were all modelled after the Chartered Bank method." (Citigroup 2002, pp. 30–31)

5 The IBC London Branch in 1904

IBC London Branch was established in 1902 just following the born of the bank. A critical document was provided by Otohiko Majima who was a Japanese employee of Mitsui Bank and was seconded to the IBC London Branch in 1904.[1] His report on the Branch's practical operations to Mitsui Bank gives valuable information about the business of IBC London Branch. In the report, Majima (1907) described the London

[1]Majima(1907), Eikoku Kawase Ginko ni Kansuru Fukumeisyo (A Report on British Foreign Exchange Banks).

Table 4 The estimated balance sheet of IBC, London Branch, 30 June 1904 (£1000)

Assets		Liabilities	
Bills receivable	630	Deposits	100
Bills purchased	260	Bills receivable	630
Acceptances	719	Acceptances	719
Cash	N.A	Due to Banks and Branches	160
Due from banks and branches	N.A	Capital and surplus	N.A
Securities	N.A		
Total	1609 + α	Total	1449 + β

Source Author's calculation based on Majima (1907)

Branch operations and the figures for the end of June 1904. We reconstruct the balance sheet of the London Branch (Table 4) from the data given by Majima (1907). The amount of outward bills purchased during the half-year was £370,000 and the amount of domestic bills discounted was £150,000. Assuming that the average maturity of the bills to be 3 months, the stock of bills discounted on hand and of bills purchased at the end of the half-year must have been £260,000.[2] The stock of acceptance was £719,600. Bills receivable in hand at the same date was £630,000. The sum of these three items was £1,609,000. On the liability side of the account, there was the stock of deposits outstanding to the amount of £100,000. The liability on account of the bills receivable outstanding was £630,000. Considered as a whole, there was a shortage of £160,000. This could represent the outstanding amount of borrowing in the London money market and borrowing from the head office. However, £1,609,000 would not represent the total size of the London Branch because it does not include cash, due from other banks and branches, and securities on the assets side.

The total assets of IBC at the end of 1904 amounted to US$27,163,000 = £5,432,000 (Fig. 8). Therefore, if the total assets = total liabilities of the London Branch were £1,609,000, this constitutes 29.6% of the whole bank's figures. Because of missing of some items, this is just a rough estimate of the importance of the London Branch to the whole IBC. A notable feature is that the London Branches acceptance outstanding was 81.6% of the figure for the whole bank, whereas the deposits outstanding at the branch were only 4.0% of the whole bank. As is well known, the London acceptances were the international currency of the day. Therefore, it is no wonder that the London Branch represented such a big share of the bank's business.

In addition to financial transactions, the London Branch contributed to deal with the personnel problem which IBC in its early years faced. The branch played the role of training centre of IBC for newly recruited staff including younger Americans (Citigroup 2002, pp. 36, 38).

[2]This approach is following Nishimura (1994, p. 33) for analysing the Hongkong Bank's branch balance sheets in 1913.

6 IBC Beijing Branch, 1922–1930

In this section, the Beijing branch business is analysed. The Beijing Branch was established in 1909. The 1930 balance sheet and the profit and loss for that same year are shown in Tables 5 and 6. In 1926, the National City Bank, the parent bank of IBC, decided that 17 branches of IBC in Asia would change their name from IBC to National City Bank (Citigroup 2002, p. 48). However, we basically use the name of IBC even after 1927 for convenience.

The Peiyang dollar in Tables 5 and 6 was an account unit. In 1925, one Peiyang dollar (hereafter Py$) was 0.701 Haikwang Tael. As one Haikwang Tael was about US$0.83, one Py$ was about US$0.58 (Lee 1926, p. 36; Hsiao 1974, p. 192). Therefore, in 1930 the size of the total asset of the Beijing Branch in US$ was US$6.84 million, and the size of the deposit of the branch was US$5.38 million. Here, the deposits include the following items: current account, foreign currency deposit, certificates of deposits-demand, certificates of deposits-time, saving deposit, and time deposit-foreign currency (the total is Py$928.1 million). Thus, the deposits dominated about 78.7% of the branch's total debt.

Further, Table 7 shows in 1929 the Beijing Branch had Py$8.71 million (US$5.05 million) deposits and we can compare the Beijing deposits with National City Bank's total deposits in China (Table 8, US$ 53.1 million). As a result, in 1929 the Beijing

Table 5 The balance sheet of the Beijing Branch, 6 October 1930 (1000 Peiyang dollar)

Demand loan	110	Profit and loss	−93
Time loan	8	Current accounts	1996
Bills discounted	1	Managers checks	1
Advances in c/a	37	Foreign cy. deposits	936
Advances in fgn.cy.	1368	Sundry accounts	41
Overdrafts	16	Draft advised	15
Fgn.cy.bills purchased	304	Marg and prep a/c	26
Their account	6300	Ctfs of deposit, demd	225
Our account, fgn.cy.	1501	Ctfs of deposit, time	3976
Our account, loc.cy.	11	Saving deposits	2112
Cash	1513	Time deposit, fgn.cy.	36
Reserve account	600	Their accounts	2388
Foreign monies	22	Bills redisctd, fgn.cy.	67
Accounts receivable	3	Reserve for interest	73
Prepaid expenses	1		
Interest, not collect	2		
Total	11,804	Total	11,804

Source Inspection Report, Peiping Sub-Branch, As of October 8th 1930, Hua-qi Yin Hang 113, the Shanghai Academy of Social Science

Table 6 Profit and loss of the Beijing Branch, 25 June 1930–8 October 1930 (Peiyang dollar)

Earnings		Expenses	
Discount	110	Interest	59,408
Interest	25,638	Salaries	42,460
Commission	12,516	Other	28,139
Exchange	2343		
Other	241		
Total	36,208	Total	130,007

Source Inspection Report, Peiping Sub-Branch, As of October 8th 1930, Hua-qi Yin Hang 113, the Shanghai Academy of Social Science

Table 7 The business of the Beijing Branch, 1927–1929 (1000 Peiyang dollars)

Year	1927	1928	1929
Current accounts	1308	1424	2190
Savings	2086	2419	2466
Fixed deposits	4276	8324	4056
Sub total	7670	7667	8712
Loans, advances, etc.	42	111	128
Advances in foreign currency	85	177	440
Sub total	127	288	568
Funds supplied Shanghai	7500	7754	8230

Source Inspection Report, Peiping Sub-Branch, As of October 8th 1930, Hua-qi Yin Hang 113, the Shanghai Academy of Social Science

Branch deposits accounted for about 9.5% of the whole Chinese deposits in the National City Bank whose all Chinese Branches were taken over from IBC.

On the other hand, as is shown in Table 6, the Beijing Branch suffered losses in 1930. So, what was the role of the Beijing Branch in IBC's business in China? Actually, the Beijing Branch' role was described in the 1930 Inspection Report[3] as follows:

> Earnings and Prospects: Peiping[4] operations as a sub-branch of Shanghai and the bulk of its business consisting of deposits and exchange, is turned over to the parent branch free of charge. The losses reported each year do not therefore reflect Peiping's real showing.
>
> Peiping has little or no claim to importance commercially. It has no industries to speak of and presents few opportunities for the investment of deposits. Insofar as we considered a loaning business has never been attempted and the activities of the Management have been largely confined to the obtaining of deposits for use of Shanghai. The usefulness of the

[3]Inspection Report, Peiping Sub-Branch, As of 8 October 1930, Hua-qi Yin Hang 113, the Business History Archives Centre, the Shanghai Academy of Social Science.

[4]Beijing was changed its name to Peiping in 1928.

Table 8 Foreign branch deposits, National City Bank, June 1929 (US$ million)

	Deposits
Argentina	31.8
Brazil	25.9
Chile	11.9
Colombia	0.3
Cuba	54.1
Dominica	4.5
Panama	12
Peru	2.7
Puerto Rico	5.2
Uruguay	4.4
Venezuela	7.6
Belgium	8.7
Italy	7.9
UK	51.9
China	53.1
India	9.6
Japan	8.0
Java	1.5
Singapore	3.6
Total	304.8

Source Cleveland and Huertas (1985, p.125)

Branch might therefore be said to depend largely on its ability to supply the parent branch with cheap funds.

In the Beijing Branch balance sheet for 1930, funds supplied to Shanghai were not separately shown. However, the funds supplied to Shanghai in 1930 can be calculated in the same manner as Table 7. Here, deposits were Py$8.312 million which derived from deducting foreign currency deposits and time deposits-foreign currency from total deposits of the branch in 1930. On the other hand, loans (Demand loan + Time loan + Bills discounted + Advances + Temporary overdrafts + Bills purchased) of the branch in 1930 were Py$1.848 million. Therefore, the difference between the deposits and loans was Py$6.464 million which could be the amount of funds supplied to Shanghai. In 1930, the item which included the funds to Shanghai was "Their account" in the assets side. The Inspection Report of 1930 includes attached data on "Their account" in the balance sheet and the report said "Their account" for Shanghai from Beijing was Py$6.3 million.[5]

[5]In the data attached to the Their accounts in the balance sheet of the Beijing Branch, in the debit (assets) side, the Shanghai Branch had Py$6.3 million; other than the Shanghai Branch, only the

The Beijing Branch's businesses other than its deposits were also shown in the Inspection Report of 1930[6] as follows:

> Credits: Peiping presents few opportunities commercially for the investment of funds and with exception of the loan to the Catholic University which was obtained through Head Office, what little loaning business is on the books of the branch is represented by U.S. dollar advances against American securities. Judging from what we can see, no attempt has been made in the past to encourage or develop local loans. While admittedly the loaning field here is restricted, it is almost impossible to believe that no loaning business whatever can be obtained. During the examination of the credit folders it was observed that many of the good local firms whom we purchase bills borrow locally…
>
> U.S. Securities: Sales of U.S. bonds continue to show up very well—some US$650,000—since the 1st of the year. The China Foundation are large buyers from time to time but the management has also been successful in depositing of a fair volume of securities to other clients. Purchase and sales of stocks since the first of the year amount to 6369 shares. Peiping should normally offer a good field for the sale of American securities. There is a great deal of wealth here and as conditions become more favourable, our sales should increase accordingly.

Based on accumulated funds, the security trade in Beijing was large and active. For example, the half-yearly report of 1923[7] said: "Domestic Bonds have been active with a good deal of fluctuations in some of the more speculative issues such as Seventh Year Loan and the Ninth Year." The Inspection Report of 1930[8] also mentioned on foreign exchange business in Beijing:

> Foreign Exchange: Peiping conducts a very active and profitable over the counter business in exchange- normally around US$4/5,000,000. This all goes to Shanghai. As indicated elsewhere in the report it is felt we could do a much larger business and improve our service considerably if the branch here was allowed to operate on its own. It is difficult to work satisfactorily on rates provided by a parent branch and it is therefore recommended that the management be allowed a small limit for exchange purpose.

Although the Inspection Report of 1930 said "Peiping has little or no claim to importance commercially" in its deposit section, above citations actually showed business opportunities in Beijing for the branch: such as loans to the Catholic University, transactions related to the US securities, and over the counter foreign exchanges.

Mukden Branch had Py$809. Inspection Report, Peiping Sub-Branch, As of 8 October 1930, Hua-qi Yin Hang 113, the Business History Archives Centre, the Shanghai Academy of Social Science.

[6]Inspection Report, Peiping Sub-Branch, As of 8 October 1930, Hua-qi Yin Hang 113, the Business History Archives Centre, the Shanghai Academy of Social Science.

[7]Half Yearly Report for 31 December 1923, from the Peking Manager to the General Manager, Hua-qi Yin Hang 136, the Business History Archives Centre, the Shanghai Academy of Social Science.

[8]Inspection Report, Peiping Sub-Branch, As of October 8th 1930, Hua-qi Yin Hang 113, the Business History Archives Centre, the Shanghai Academy of Social Science.

Table 9 The business volume of the Beijing Branch, 1922–1924 (1000 Peking dollars)

	1922-1-6	1922-7-12	1923-1-6	1923-7-12	1924-1-6
Deposits					
Current deposits	1375	1201	1220	1139	1919
Savings deposits	1770	1988	1984	2145	2235
Time deposits	3892	3917	4044	4719	4592
Bank notes	2505	3085	2084	2155	2028
Loans from NY	3091	3167	2692	2044	1286
Founds with Shanghai	5989	8863	8838	8870	8547
Tientsin	0	75	163	377	648
Hankow	0	0	4	5	11
Earning accounts					
Advance bills receivable	4	2	4	10	8
Overdrafts	207	199	268	254	241
Time loans	91	1	126	220	381
Bills and credits					
Bills received for collection					
From branches	28	43	21	10	1
All others	7	132	24	43	22
Travellers letters of credits	56	78	31	82	88

Source Peking Branch-Branch Statistics, Volume of Business, July-December 1923 and January-June 1924, Hua-qi Yin Hang 136, the Shanghai Academy of Social Science

The data on the Beijing Branch business for 1922 and 1923 were shown in the half-yearly report of 1923.[9] The half-yearly report of 1923 did not show the balance sheet of the branch, but it showed the turnover of business as is shown in Table 9. On profits and losses, the report said that the branch lost 202,665 Peking dollars in the second half of 1922, 193,630 Peking dollars in the first half of 1923, and 202,549 Peking dollars in the second half of 1923. Lee (1926) did not refer to the Peking dollar. Nonetheless, the half-yearly report said: “Dollars continued at a heavy discount throughout the rest of the year. Our closing quotations were Shanghai Taels 72.80 as against Mex (Mexican: Author) dollar rates in Shanghai of 71.90—a difference of over 1%.[10]” According to this statement, 100 Peking dollars equalled 72.8 Shanghai Taels and one Peking dollar was equal to 0.54 US dollars because 100 Haikuang Taels equalled 111.4 Shanghai Taels and one US dollar equalled 1.2 Haikuwang Taels.

[9]Half Yearly Report for 31 December 1923, from the Peking Manager to the General Manager, Hua-qi Yin Hang 136, the Business History Archives Centre, the Shanghai Academy of Social Science.

[10]Half Yearly Report for 31 December 1923, from the Peking Manager to the General Manager, Hua-qi Yin Hang 136, the Shanghai Academy of Social Science.

Table 10 The estimated balance sheet of the Beijing Branch, December 1923 (1000 Peking dollars)

Cash and reserve	2196	Profits and loss	−20
Advance bills receivable	5	Current deposits	1139
Overdrafts	127	Savings deposits	2145
Time loan	220	Time deposits	4719
Bills received for collection	27	Loans form NY	2044
Travellers letters of credits	41	Bank Notes	2155
Funds with Shanghai	8870		
Tientsin	377		
Hankow	5		
Total	11,868	Total	12,182

Source Based on Peking Branch Statistics, Volume of Business, July-December 1923 and January-June 1924, Hua-qi Yin Hang 136, the Shanghai Academy of Social Science

Using the turnover of business and the profits and losses of the branch for 1922 and 1923 along with the balance sheet of the branch in 1930, we can estimate the balance sheet of the branch in 1923 (Table 10). In this estimation, it is important to consider whether “Funds with Shanghai, Tientsin, Hankow” was included in the debt side of the balance sheet, because the “Funds” was included in the deposit items. As a conclusion, we regard the “Funds” as the funds supplied by the Beijing Branch to Shanghai, Tientsin (Tianjin), and Hankow Branches. This is consistent with the Inspection Report of 1930 which indicated that the Beijing Branch supplied funds to the Shanghai Branch. The balance sheet of 1930 also included the funds supplied from the branch in “Their account.”

In the estimated balance sheet, the assets roughly equal the debts, given some assumptions. But the assumptions cannot lead to large errors. In particular, because “Funds with Shanghai” was a large item, putting the funds in the debt side led to a large difference between the assets and the debts. Putting the funds in the assets side led to reasonable results. Comparing the estimated balance sheet in 1923 and the completed balance sheet in 1930, we see that the structure of the branch balance sheet did not change substantially from 1923 to 1930.

Comparing the size of the balance sheets between 1923 and 1930 given the exchange rate of one Peking dollar to 0.54 US dollars, the sizes of the balance sheet were US$6.57 million in 1923 and US$6.84 million in 1930, respectively. In addition, the amount of deposits grew from US$4.32 million in 1923 to US$5.38 million in 1930. The growth rate of the size of the branch balance sheet total was just 0.6% annually during the 1920s.

We conclude that the role of the Beijing Branch for IBC business in China in 1920s was to collect deposits and to supply funds to the Shanghai Branch. However, Beijing also provided some business opportunities such as loans to the Catholic University, transactions related to the US securities, and over the counter foreign exchanges.

7 Branch Banking in Trade Ports: Tianjin and Guangzhou

In the previous section, we showed the business of the Beijing Branch in the 1920s. While the Beijing branch showed continuous losses the branch supplied a large amount of funds and handed its exchange profits over to the Shanghai branch. Therefore, the data of the Shanghai branch could reveal the pivotal business of IBC in China. Unfortunately, documents including the data of the Shanghai branch are not stored in the Archives of Shanghai Academy of Social Science. For trade port branches, only the data of Tianjin Branch in 1935 and 1936[11] and that of Guangzhou Branch in 1936 and 1937[12] are available. Hence, in this section, we will see the business of profitable branches by using the data of these two branches.

(1) The Tianjin Branch in 1935 and 1936

The Tianjin Branch was established in 1916. The profits and losses of Tianjin Branch are shown in Table 11. One Tianjin dollar at that time was about US$0.301. Monthly gross profits for the branch were 17,227 Tianjin dollars and 5398 Tianjin dollars in September and in October 1936, respectively. Gross profit for the ten-month operations from January to October of the branch were 222,655 Tianjin dollars and 137, 019 Tianjin dollars in 1935 and 1936, respectively. For the Tianjin Branch, as a source of profits, usually exchanges were larger than interests (Table 11). In Table 11, only October 1936 was the exception.

According to the balance sheet in Table 12, finance of foreign trade, such as foreign currency bills purchased, commercial loan and advances, export advances which were divided into export o/d, advances against export bills, and export bills in local currency were the important businesses. These figures show that the branch mainly depended on export trade for gaining profit though another large item, "Advances bills local," which was included in import-related items. However, in the Tianjin Branch, balances due from Head Office and Branches are regarded as the counterpart of Their account in the Beijing Branch. Furthermore, this item maintained a large value in the assets of the Tianjin Branch. This means that the Tianjin Branch also provided funds to other branches, presumably to the Shanghai Branch.

[11] On the Tianjin Branch, The Tientsin Manager to the Vice President, Monthly Letter No.64, October, 1936, Hua-qi Yin Hang 166, the Business History Archives Centre, the Shanghai Academy of Social Science.

[12] On the Guangzhou Branch, The Canton Manager to the Vice President, Monthly Letter No. 67, 29 January 1937, Monthly Letter No. 68, 27 February 1937, 25 March 1937, Monthly Letter No. 70, 26 April 1937, Monthly Letter No. 71, 25 May 1937, Month Letter No. 73, 25 July 1937, Monthly Letter No.74, 25 August 1937, Monthly Letter No. 75, 25 September 1937, Monthly Letter No. 76, 25 October 1937, and Monthly Letter No. 79, 24 December 1937, Hua-qi Yin Hang 156, the Business History Archives Centre, the Shanghai Academy of Social Science.

Table 11 The profit and loss of the Tianjin Branch in 1935 and 1936 (Tientsin dollar)

	Oct. 1936	Sept. 1936	Jan. to Oct. 1936	Jan. to Oct. 1935
Income				
Interest	21,371	20,841	2,13,978	1,70,766
Discount	210	92	1766	293
Exchange	16,141	26,918	2,35,562	3,65,203
Commission	2129	1622	13,640	10,262
Interest on non accrual assets	0	0	0	2272
Other	0	553	1089	1768
Total	39,852	50,022	4,66,036	5,50,566
Expense				
Interest	13,068	12,856	1,12,363	1,05,564
Salaries	13,330	12,698	1,30,760	1,32,225
Other	7505	7189	83	87,521
Taxes	50	50	2100	2500
Total	34,454	32,795	3,29,017	3,27,911
Gross profits	5398	17,227	1,37,019	2,22,655

Source Tientsin Manager to Vice President, The National City Bank of New York, Monthly Letter No.64, October, 1936, Hua-qi Yin Hang 166, the Shanghai Academy of Social Science
*Gross profits were calculated by the author

(2) The Guangzhou Branch in 1936 and 1937

The Guangzhou Branch was established in 1904. In Guangzhou, the main items for exports were raw silk, tea, and cotton (Citigroup 2002, p. 40). The available data about Guangzhou Branch was on 1936 and 1937. The profits and losses of Guangzhou Branch are shown in Tables 13 and 14. One Hong Kong dollar at that time was US$0.3056. On the profit and loss accounts, the Guangzhou Branch earned profits of HK$42,000 and HK$ 12,000 in 1936 and 1937, respectively.

As sources of revenue and profits for the branch, exchanges were the largest and the twice of interests in 1936. Comparing exchange revenues of 1936 and 1937, the former was HK$108,000 and the latter was HK$70,000. On the other hand, other items both in incomes and expenditures were basically stable. Therefore, the problem of the branch in 1937 was a sharp decrease in revenues from exchanges and it shows a feature of the Guangzhou Branch as a port located unit of an exchange bank.

The balance sheet of the Guangzhou Branch is shown in Table 15. Comparing the Guangzhou Branch and the Tianjin Branch, the difference between the balance sheets of the two-port located branches is that the weight of foreign trade items in assets was smaller in Guangzhou than in Tianjin. The assets of the Guangzhou Branch in January 1937 mainly consisted of the balances due by the Head Office and the branches. Therefore, although Guangzhou was a trade port, the balance sheet characteristics of the branch were similar to those of the Beijing Branch and quite different from those of the Tianjin Branch. This may have been brought about by the

Table 12 The balance sheet of the Tianjin Branch, 24 October 1936 (1000 Tientsin dollars)

Assets		Liabilities	
Cash	425	Current accounts	2791
Call Loans	1245	Saving accounts	827
Loans against stock and bonds	354	Time deposits	1550
Loans against mortgages	792	HO & Branches	255
Commercial loans and advances	1176	Foreign Cy. Deposits	6853
All other local loans	52	Profit and loss	5
Trade paper discounts	28		
Advances bills local	409		
Export advances	986		
Foreign Cy. Bills purchased	2995		
Past due obligations	146		
Bank premises	88		
Other	223		
Due from HO & Branches	3608		
Total	12,527	Total	12,281

Source Tientsin Manager to Vice President, The National City Bank of New York, Monthly Letter No. 64, October, 1936, Hua-qi Yin Hang 166, the Shanghai Academy of Social Science

proximity of the Guangzhou Branch to the Hong Kong Branch, which was also in a major trading port; however, the size of the Hong Kong as a port was larger than that of Guangzhou. Hong Kong's main export items were textiles, sugar, flour, and metal (Citigroup 2002, p. 40). The relationship between the Guangzhou and Hong Kong Branches is similar to that of the Beijing and Shanghai branches because both of the former supplied funds to each of the latter.

However, the Guangzhou branch did not lose money continuously. The cause of the difference between the Guangzhou Branch and the Beijing Branch lay in the way of accounting for the revenue from exchanges. In the P/L account of the Guangzhou Branch, the revenue from exchanges was the main source of revenues. In the inspection report on the Beijing Branch, on the other hand, the revenue from exchanges was brought into the Shanghai Branch. Thus, in P/L dimension, the Guangzhou Branch worked as a branch in a trade port like the Tianjin Branch, but in balance sheets (BS)

Table 13 The profit and loss of the Guangzhou Branch in 1937 (1000 HK dollars)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Income													
Interest	4	4	3	3	4	5	3	4	5	5	6	5	53
Discount	0	0	0	0	0	0	0	0	0	0	0	0	0
Exchange	2	7	5	3	5	4	4	6	8	9	8	8	70
Commission	1	0	1	0	0	0	1	9	2	1	2	3	21
Interest on non accrual assets	0	0	0	0	0	0	0	2	0	0	0	0	3
Other	0	0	0	0	0	0	0	0	0	0	0	0	2
Total	7	11	9	6	9	9	8	21	15	15	16	16	149
Expense													
Interest	2	2	2	2	2	2	2	2	1	2	3	1	20
Salaries	7	6	6	6	6	6	6	6	5	6	6	6	76
Other	3	3	3	3	3	3	3	3	4	3	3	8	40
Taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
Total	12	11	11	11	11	11	11	11	10	11	12	15	137
Gross profits	−5	0	−2	−5	−2	−2	−3	11	5	4	4	1	12

Source The Canton Manager to the Vice President, Monthly Letter No. 67, January 29, 1937, Monthly Letter No. 68, February 27, 1937, March 25, 1937, Monthly Letter No. 70, April 26, 1937, Monthly Letter No. 71, May 25, 1937, Month Letter No. 73, July 25, 1937, Monthly Letter No. 74, August 25, 1937, Monthly Letter No. 75, September 25, 1937, Monthly Letter No. 76, October 25, 1937, and Monthly Letter No. 79, December 24, 1937, Hua-qi Yin Hang 156, the Business History Archives Centre, the Shanghai Academy of Social Science

Table 14 The profit and loss of the Guangzhou Branch in 1936 (1000 HK dollars)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Income													
Interest	13	7	5	4	4			1	3	3	3	4	53
Discount	0	0	0	0	0			0	0	0	0	0	0
Exchange	14	16	16	8	10			10	7	5	2	3	108
Commission	1	1	1	0	0			1	2	0	1	1	13
Interest on non-accrual assets	0	0	0	0	0			0	0	0	1	0	3
Other	0	0	0	0	0			0	0	0	0	0	0
Total	28	24	22	13	14			13	12	8	7	8	177
Expense													
Interest	2	1	2	1	2			2	1	2	2	1	18
Salaries	7	8	6	6	6			6	7	6	7	6	79
Other	3	4	3	3	4			4	4	3	3	0	37
Taxes	0	0	0	0	1			0	0	0	0	0	1
Total	12	13	11	11	12			11	12	11	11	7	135
Gross profits	16	11	11	2	2			2	0	-3	-4	1	42

Source The Canton Manager to the Vice President, Monthly Letter No. 67, January 29, 1937, Monthly Letter No. 68, February 27, 1937, March 25, 1937, Monthly Letter No. 70, April 26, 1937, Monthly Letter No. 71, May 25, 1937, Month Letter No. 73, July 25, 1937, Monthly Letter No. 74, August 25, 1937, Monthly Letter No. 75, September 25, 1937, Monthly Letter No. 76, October 25, 1937, and Monthly Letter No. 79, December 24, 1937, Hua-qi Yin Hang 156, the Business History Archives Centre, the Shanghai Academy of Social Science

Table 15 The balance sheet of the Guangzhou Branch, 25 January 1937 (1000 HK dollar)

Assets		Liabilities	
Cash	895	Current accounts	1446
Loans against stocks and bonds	6	Savings accounts	5026
Loans against mortgages	111	Time deposits	303
Commercial loans and advances	250	Foreign Cy. Deposits	253
Foreign Cy. Bills purchased	2	Profit and loss	−4
Export advances	57		
Foreign Cy. Bills Remitted	311		
Past due obligations	33		
Bank premises	67		
Other assets	69		
Due by HO & Branches	5896		
Total	7697	Total	7024

Source Canton Manager to Vice President, The National City Bank of New York, Monthly Letter No. 67, January 29, 1937, Hua-qi Yin Hang 156, the Shanghai Academy of Social Science

dimension, the branch played a role to collect deposits and supply them to its larger neighbour, the Hong Kong Branch like the Beijing Branch for the Shanghai Branch.

8 Conclusion

This overview on IBC history from its establishment to the 1930s shows that though IBC did enlarge its business during World War I, it could not catch up with the leading international banks in Asia in the 1920s and 1930s, namely the Hongkong Bank, the Chartered Bank, and the Yokohama Specie Bank. However, this study on the branches of IBC revealed some key facts.

First, the London Branch played the key role for the IBC as a whole at least before World War I especially in acceptance.

Second, the Beijing Branch in the 1920s supplied funds to the Shanghai Branch continuously. This means that in the Chinese branch network of IBC, the Shanghai Branch played the pivotal role in gaining profits (Table 3) as was the cases of Shanghai Branches of other leading international banks. However, Beijing also provided some business opportunities such as securities or foreign exchange transactions to the IBC branch there.

Third, the Tianjin Branch, which was located in a trading port, had business characteristics similar to those of the Shanghai Branch. Because the branch was located in a trading port, it had a large business related to foreign trade and earned profits from them.

Finally, the Guangzhou Branch had business characteristics similar to both the Beijing and the Tianjin Branches. For earning profits, it acted as a branch based on foreign exchange business. However, within the intra-flow of funds of IBC, the branch played a fund source role for its parent branch, Hong Kong.

This study could not find a unique American aspect of IBC as an international bank except for the Beijing Branch's American security business. The main reason is that we could not use the records of the IBC Head Office in New York or key branches such as the Shanghai Branch. So far and overall, our analysis showed that IBC was similar to other international banks as an exchange bank in Asia, especially in comparison to the Chartered Bank of India, Australia, and China. In 1919, the IBC vice president, Lawrence Morton Jacobs, emphasised to staff of the National City Bank that:

> the outstanding feature of the activities of the IBC and other foreign banks in Eastern countries is the buying and selling of exchange, bills, drafts and telegraphic transfer" and "foreign exchange was "so important" to the overall business. (Citigroup 2002, p. 47)

However, because of this similarity of business and its status as a latecomer, IBC could not effectively challenge its leading competitors for Asian business before World War II.

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Chapter 11
Japanese International Banking

Makoto Kasuya

Abstract After the opening of Japanese ports to Western countries in 1859, Japanese foreign trade and trade finance were dominated by Western merchants and banks along with Chinese merchants. The Japanese government encouraged Japanese merchants to conduct business directly with merchants on foreign soil and established government-related banks such as Yokohama Specie Bank, the Bank of Taiwan, and the Bank of Chosen to give foreign finance. Just before the First World War, Japanese merchants traded about a half of the Japanese international trade and Japanese banks also gave about a half of Japanese international trade finance. During the War, non-government-related banks such as Mitsui Bank and Mitsubishi Bank of which main customers were their zaibatsu affiliated trading companies such as Mitsui and Co. and Mitsubishi Corporation began foreign exchange business and foreign banks' market share dropped significantly because of the wartime control by their home countries. In the 1920s, foreign banks regained some of their lost business but could not take as much share as before the War. After the Great Depression, however, the Japanese government introduced foreign exchange control to reduce trade deficits and activities of non-government-related banks were restricted; therefore, market shares of the Japanese government-related banks increased again.

Keywords Yokohama Specie Bank · Trade finance · Zaibatsu banks · Bank of Taiwan

1 Introduction

Modern multinational banking emerged in two periods: First, in the nineteenth century when British, French, and German banks established numerous foreign branches, mainly in developing economies, and second, after the 1960s, when US banks established a large number of branches outside of the USA (Aliber 1984; Jones 1990, 1993). There were two kinds of British overseas banks in the first period. The

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first type consisted of London-based banks with branch networks in British settlements such as Australia, New Zealand, and South Africa. These regions also had a number of banks established by settlers that competed with the branch banks. The second type of British overseas bank consisted of London-based banks with branches in parts of Asia such as India, China, and Japan, with Japanese banks comprising the main competition (Japanese banks also had some offices in Europe and North America) (Jones 1993; Michie 2012). Such banks included the Chartered Bank of India, Australia and China (CBIAC) and the Chartered Mercantile Bank of India, London and China (CMBILC, later reorganized into the Mercantile Bank of India); further, the Hongkong and Shanghai Banking Corporation (HSBC), which was established in Hong Kong but had a powerful branch in London, appears very similar to these banks in many aspects (Green and Kinsey 1999; Jones 1993; King 1987–1991; Mackenzie 1954; Muirhead 1996). Recently, several comparative analyses of international banking in Asia have been conducted (Bonin et al. 2015; Nishimura et al. 2012).

In order to compete with these banks in foreign exchange markets, or to circulate banknotes based on Japanese yen in Taiwan, Korea, and/or China, the Japanese government established some government-related banks (GRB) through special legislation, such as the Yokohama Specie Bank (YSB) in the former case, and the Bank of Taiwan (BoT) and the Bank of Chosen (BoC) in the latter (Horesh 2012; Metzler 2006; Schiltz 2012). These three banks played an important role in financing Japanese foreign trade. Furthermore, some Japanese established banks on foreign soil in order to raise funds and make loans and remit money to Japan, and banks established through the Banking Law of 1890 in Japan (ordinary banks) conducted foreign exchange business with or without establishing overseas branches. While there are numerous studies of YSB and Mitsui Bank (one of the largest ordinary banks) (Ishii 1994, 2002; Kasuya 2012; Nishimura 2012; Ogura 2002, 2003; Tamaki 1990), they are primarily case studies, and competition between Japanese and foreign banks has been analyzed only by Itoh (1989) and Tatewaki (1987, 2002).

This chapter aims to analyze the competition between foreign banks, Japanese GRBs, and Japanese ordinary banks before the Second World War with a focus on the establishment and business of banks in foreign countries. The organization of this chapter is as follows: In the next section I briefly review the establishment of offices in Japan by foreign banks; in the third section, I explore the establishment of banks with headquarters in Japan that conducted foreign exchange businesses and banks based in foreign soil that served mainly Japanese expatriates; in the fourth section, I investigate competition among banks in the Japanese foreign exchange markets; in the fifth section, I analyze customers of Japanese banks in Shanghai to supplement the above analysis; and in the final section, I conclude this chapter with some remarks.

2 The Arrival of Foreign Banks

After the opening of Japanese ports to Western countries in 1859, Western and Asian merchants came to the ports for international trade. Soon after their arrival, foreign banks established offices in Yokohama, Kobe, and other cities. In 1863, three banks, the Central Bank of Western India, CMBILC, and the Commercial Bank of India, established offices in Yokohama, and by the end of the nineteenth century ten other banks had offices in Yokohama, as well as four offices in Kobe, two in Nagasaki, and two in Osaka (Tatewaki 1987, pp. 64–98). Oriental Bank Corporation (OBC), HSBC, CBIAC, and Banque Russo-Chinoise (BRC) established branches both in Yokohama and Kobe, two major port cities in Japan. Although HSBC and CBIAC maintained their branches up until the beginning of the Second World War, OBC went bankrupt in 1884 (and its successor, New Oriental Bank Corporation [NOBC], went bankrupt in 1892) and BRC closed its Kobe and Nagasaki branches in 1904 (in 1910 BRC merged with Banque du Nord to become Banque Russo-Asiatique [BRA], which was liquidated in 1926).

The number of offices of foreign banks in Japan increased following the Russo-Japanese War (1904–1905), declined during the First World War, increased again after WWI so that some twenty offices existed in the 1920s and shrank again after the outbreak of the Great Depression (Table 1). In addition to HSBC and CBIAC, International Banking Corporation (IBC) (established in Connecticut in 1901 and acquired by the National City Bank of New York [NCBNY] in 1915; Japanese branches were taken over by the NCBNY in 1927 [Starr 2002, pp. 41–48]), Deutsch-Asiatische Bank (DAB), Nederlandsch-Indische Handelsbank (NIH), and Banque Franco-Japonaise (BFJ) each opened two or more branches in Japan.

In the same way that BFJ was established jointly by Japanese and French investors, Anglo-Japanese Bank was established in London in 1906 by Japanese and British investors. Although the latter opened branches in Yokohama and Tokyo, it mainly conducted its business in Britain, so in 1913 it changed its name to Commercial Bank of London and withdrew all of its branches from Japan. By that time, Japanese shareholders had sold all of their shares because the Anglo-Japanese Bank had paid no dividends since its establishment.[1] BFJ was established in Paris in 1912 to assist investment in China by French banks such as Société Générale and Japanese banks such as Industrial Bank of Japan (IBJ). After the Great War, however, its main business was assisting French merchants because the French had little capacity to invest in China (Tatewaki 2002, pp. 18–42).

[1] "A change of name," *Bankers' Magazine*, August 1913, pp. 138–9.

Table 1 The number of foreign banks' offices in Japan

	OBC/NOBC	HSBC	CBIAC	IBC/NCBNY	DAB	BRC/BRA	NIH	BFJ	Others	Total	No. of banks
1870	3	2	0	0	0	0	0	0	2	7	4
1875	2	2	0	0	0	0	0	0	2	6	4
1880	2	2	1	0	0	0	0	0	2	7	5
1885	2	2	1	0	0	0	0	0	1	6	4
1890	2	2	1	0	0	0	0	0	1	6	4
1895	0	3	2	0	0	0	0	0	1	6	3
1900	0	3	2	0	0	3	0	0	1	9	4
1905	0	3	2	2	1	1	0	0	0	9	5
1910	0	3	2	2	2	1	0	0	5	15	8
1915	0	3	2	2	2	1	0	1	0	11	5
1920	0	3	2	2	2	2	1	1	7	20	11
1925	0	4	3	4	2	1	1	1	5	21	11
1930	0	4	3	4	1	0	3	3	1	19	7
1935	0	3	2	4	0	0	2	2	2	15	7

Sources Tatewaki (1987, 2002), MoF (1905–1937)

3 The Opening of Foreign Branches by Japanese Banks and the Establishment of Banks by Japanese Outside of Japan Proper

3.1 Establishment of GRBs

In order to compete with these foreign banks, the Japanese government established three banks under special legislation. First, YSB, of which one-third of the shares was held by the government, was established in 1880 and bought export bills to earn money for the government's overseas purchases. In 1887, however, it was reorganized as a bank whose main business was trading in foreign exchange under the Yokohama Specie Bank Act and had the right to receive low-interest-rate loans from the Bank of Japan in order to compete with foreign banks. It established offices in Asia, Europe, and North America before the outbreak of the First World War, and after that in Oceania, South America, and Africa. It was the only Japanese bank that had offices on six continents before the Second World War, though it also had several offices in Japan. In addition to the transaction of foreign bills of exchange and remittance bills, its London office underwrote Japanese government bonds issued there. In this way, its business model was very similar to that of HSBC.

Second, in 1897, the BoT was established under the Bank of Taiwan Law. Its aims were to make loans to commerce, industry, and public utilities to develop Taiwan, to extend its business to South China and South Asia to assist Taiwan's trade with these regions, and to unify money in Taiwan. Naturally, it was allowed to issue banknotes in Taiwan and elsewhere and later made loans to governments in China. It established offices in the above regions as well as in Japan proper, London, and New York. Third, in 1911, the BoC was established under the Bank of Chosen Law. It succeeded the activities of the Bank of Korea (BoK), which was established in 1909, taking over the right to issue banknotes in Korea and offices there from Daiichi Bank. While the BoC's aim was not stipulated clearly in the Law, it was not only a central bank in Korea—it also assisted trade among Korea, Japan, northern China, Manchuria, and Far Eastern Russia. In order to fulfill the latter task, it endeavored to circulate its banknotes in Manchuria and northern China as well as in Korea. In addition to these regions, it established a New York branch and dispatched a London representative. These two banks' business models were similar to that of Banque de l'Indochine, which had the right to issue banknotes solely in French Indo-China, and established branches in China before the First World War.

3.2 *Establishment of Foreign Branches by Ordinary Banks Domiciled in Japan*

Before the government established the above three banks, non-government-related banks founded branches abroad. After the Meiji Restoration of 1868, the Japanese began to go abroad because they were allowed to do so officially for the first time since the seventeenth century. Some people went to Hawaii or the US West Coast to work as peasants, and others went to Korea as merchants. As the number of peasants and merchants increased, the Japanese who provided them with meals, cleaning, and other services also increased (Table 2). After the annexation of Taiwan, South Sakhalin, and Korea and the succession of the Kwantung Leased Territory (KLT),

Table 2 Number of Japanese residents in foreign territories, classified by region before the Second World War

	1889	1897	1907	1917	1927	1937
Taiwan[1]	–	3347	77,925	145,232	202,990	299,280
South Sakhalin[2]	35	282	18,281	71,517	215,443	318,321
Korea[3]	5589	13,615	98,001	332,456	454,881	629,512
KLT[4]	–	–	24,572	55,364	96,653	174,514
South Sea Islands[5]	–	–	–	649	9831	61,723
Manchuria	–	10	20,056	56,894	102,072	411,996
SMRZ[6]	–	–	(13,313)	(42,674)	(88,197)	–
Guannei[7]	757	1155	15,776	48,740	51,698	59,345
Asia other than Korea and China[8]	1199	4154	8156	26,590	37,592	43,877
Oceania	87	2691	3562	6554	3570	3026
North America including Hawaii	10,511	36,204	174,206	227,009	291,251	287,771
Central and South America	–	62	4350	28,025	90,171	234,142
Europe	504	598	785	1109	3170	2893
Africa	–	–	–	–	85	198
Unknown	6	14	–	–	–	–
Total	18,688	62,132	445,670	1,000,139	1,559,407	2,526,598

Sources For 1899, Statistical Bureau (1890); for other years: Taiwan Government-General (1898–1938); Chosen Government-General (1912–1938); South Sakhalin Agency (1908–1938); South Sea Islands Agency (1928–1938); Kwantung Agency (1908–1938); Trade Bureau, Ministry of International Affairs (1908–1938)

Notes (1) Under Japanese rule from 1895. (2) Under Japanese rule from 1905 (this number includes residents in North Sakhalin in 1889 and 1897). (3) Under Japanese rule from 1910. (4) Under Japanese lease from 1905. (5) A Japanese trusteeship from 1921. (6) Established in 1906 and abolished in 1937. The number of SMRZ residents is included in the number for Manchuria. (7) China to the west of Manchuria. (8) Includes residents in the Russian Far East and the Near East and South Manchurian Railway Zone (SMRZ), a large number of Japanese people emigrated to these regions.

These emigrants had two kinds of financial needs. One was to finance trade between Japan and their residential area (later they began trading between their residential area and third countries), and the other was savings and loans in their residing areas and monetary remittances to their homeland, particularly small amounts of savings, loans, and remittances for small-sized merchants. The former needs were principally fulfilled by branches of banks with head offices located in Japan, and the latter were fulfilled by banks established by expatriates in the region. While some branches provided the latter financial services to some extent, banks established outside of Japan proper could not fully provide the former services because of their shortage of connections with Japan proper.

The first branches of Japanese banks were established in Korea and Taiwan, followed by Hawaii and the US West Coast, where the number of Japanese emigrants was large. With the treaty of 1876 between Japan and Korea, Korea opened ports such as Busan, Wonsan, and Inchon and Japanese merchants were able to circulate Japanese yen there. Daiichi National Bank (Tokyo) opened an office in Busan in 1878 and in other cities in Korea after that. Daihyakuni National Bank (Izuhara, Nagasaki) and Daigojuhachi National Bank (Osaka) followed suit. In 1890, Daijuhachi National Bank (Nagasaki) opened a branch in Inchon and later took over Daihyakuni National Bank's branches in Wonsan and Busan. By 1900, Daiichi Bank had four offices in Korea, Daigojuhachi Bank had three, and Juhachi Bank had three.[2] In 1902, Daiichi Bank began to issue banknotes in Korea, and three years later, they became legal tender. Although Daiichi Bank established more branches in Korea, it closed all of its offices but two when the right to issue banknotes was taken over by the newly established BoK (Takashima 1978). While Juhachi Bank also established more branches there afterward, by 1936 it had sold all of its business and offices there to Korea Development Bank, which had been established under special legislation in 1918 because the Japanese Ministry of Finance (MoF) advised Japanese banks to close branches outside of the prefectures where the banks' head offices were located. As a result, the number of branches of ordinary banks decreased and that of the GRBs increased. Soon after its annexation, Churitsu Bank (Osaka) established offices in Taiwan, and it later merged with Sanjushi Bank (Osaka), which took over the offices. By 1900, Sanjushi Bank had five offices in Taiwan.

In Honolulu and the US West Coast, three small-sized banks established offices for Japanese emigrants, but their business was unhealthy and they were all short-lived. In Honolulu, Keihin Bank (Tokyo) opened a branch in 1898. Although it received deposits from and made loans to the emigrants, it made a huge amount of loans to its directors and politicians at the same time and closed the branch in 1906 (Kimura 1985). In Seattle, Koshin Bank (Tokyo) established an office in 1904 but closed it the

[2]Most national banks were converted to banks around 1897, under the Banking Act of 1890.

next year because of its dissolution. In San Francisco, Chuo Shogyo Bank opened an office in 1904 and closed it in 1912.[3]

While these banks that established foreign branches before the First World War were relatively small, except for Daiichi Bank and Sanjushi Bank (their branches were located in Korea and Taiwan under Japanese rule), three major *zaibatsu*-related banks, Sumitomo Bank, Mitsui Bank, and Mitsubishi Bank established branches outside Japan proper after the outbreak of the War. In 1898, Sumitomo Bank began foreign exchange business using YSB's Honolulu sub-branch as its correspondent to remit emigrants' money to their homeland and to accept the remittances as deposits in Japan. In addition to correspondents, it established two offices in China (Shanghai and Hankow, now Wuhan), one in Mumbai, one in London, three in the USA (New York, San Francisco, and Los Angeles), and three subsidiary banks in the USA (Honolulu, Seattle, and Sacramento) between 1916 and 1925, though it closed the Hankow and Mumbai branches during the Great Depression. The main businesses of the offices and subsidiaries in Hawaii and the US West Coast were taking deposits from and remitting money for Japanese immigrants; the main business of the other offices was trade finance.

In 1906, Mitsui Bank began foreign exchange business using Barclays Bank as a correspondent in London. As the business expanded significantly during the First World War, it began establishing its own offices, and by 1928, it had offices in Shanghai, New York, London, Mumbai, Surabaya, and Dalian. It mainly provided finance to trading houses such as Mitsui and Co., which was the largest trading company in Japan at that time. The foreign exchange business of Mitsubishi Bank, which was one division of Mitsubishi Goshi Kaisha until 1919, increased rapidly after Mitsubishi Goshi Kaisha opened its London office in 1915. Due to this expansion, it established a branch in Shanghai in 1917, as well as branches in New York and London in 1920 (it also established a sub-branch in Dalian in 1933). As was the case with Mitsui Bank, Mitsubishi Bank's main customers were trading houses such as Mitsubishi Corporation. In 1919, it poached Kenkichi Yamaguchi from YSB to appoint him as New York manager.

3.3 Establishment of Ordinary Banks Outside of Japan Proper

Banks and branches were also established by Japanese immigrants in Taiwan, Korea, Manchuria, Guannei, the USA, and Brazil. In Taiwan, the Taiwan Savings Bank was established as early as 1899. In 1910, however, the Industrial and Commercial Bank of Taiwan was established and absorbed the Taiwan Savings Bank. While it competed with banks established by native Taiwanese, by 1923, it merged with Niitaka Bank

[3]In 1904, Kansai Bank (Marifu, Yamaguchi) and Suo Bank (Yanai, Yamaguchi) established offices in Manila; however, both of them were short-lived, with the former closing in 1908 and the latter in 1905.

and Kagi Bank, which were controlled by native Taiwanese and succeeded Niitaka's Xiamen branch (Namikata 2001). As it founded more branches in Taiwan, and Shoka Bank came under a Japanese president's control, the number of offices of banks controlled by the Japanese increased in the 1930s. The first modern Korean bank was established by Korean government officials and other natives in 1899, and five other banks were established by Koreans before the First World War, while Japanese immigrants also established five banks in Korea during the same period. Korean banks' customers were Korean and Japanese banks' customers were Japanese. While six banks were founded by Koreans and six by Japanese between 1915 and 1920, from 1920 no new banks were allowed to be formed except for banks that were established by merging two or more banks. Because the Commercial Bank of Korea, which absorbed many banks, came under Japanese control, the number of Japanese banks' offices increased significantly in the 1920s (Hori 1983).

In Manchuria (including the KLT and the SMRZ), eleven banks were established by the Japanese between 1908 and 1914. Shoryu Bank was at first a credit association by the Chinese and the Japanese, and in 1908, it was transformed into a modern bank by the Japanese. However, it soon faced difficulties and fell under Yasuda *zaibatsu* control in 1911. Under the Yasuda umbrella, it established branches and grew larger, while its customers were Japanese merchants. During and soon after the First World War, many banks were established but they faced difficulties after the panic of 1920. In the 1920s, Shoryu Bank became one of two largest Japanese banks in Manchuria, together with Manchuria Bank, as a result of consolidation movements (Imuta 2001). In 1937, however, the Industrial Bank of Manchuria was established under the special law of the puppet state of Manchukuo to take over the business of the BoC, Shoryu Bank, and Manchuria Bank. Due to this consolidation, the number of branches of ordinary banks decreased and that of GRBs increased.

In Guannei, one Japanese bank was established in each of the following seven cities between 1915 and 1920: Tianjin, Beijing, Shanghai, Qingdao, Jinan, Hankow, and Changsha (the Commerce and Industrial Bank of Tianjin was established in 1912). With the exception of Changsha, the other six cities had the largest number of Japanese residents at the time. While the New Commerce and Industrial Bank of Tianjin (formed by combining the Commerce and Industrial Bank of Tianjin with the Business Bank of Beijing in 1918, and reorganized into the Bank of Tianjin in 1920) adopted a very aggressive strategy to increase Chinese clients and established an Osaka branch in 1919 to create closer ties with Japanese markets, it retreated from Osaka in 1924 due to the failure of its aggressive policy. In 1935, three Japanese banks had branches in Chinese cities other than where their head offices existed (Hankow Bank had two offices in Shanghai; Jinan Bank had a Qingdao branch; and the Bank of Tianjin had a Beijing branch). In addition to banks owned and managed by the Japanese, two banks, Dadon Bank and Exchange Bank of China, were established jointly by Chinese and Japanese investors. The former had offices in Beijing, Shanghai, and Tianjin and went bankrupt in 1927. The latter had offices in Beijing, Shanghai, Tianjin, and Mukden (Now Shenyang) and also closed its doors in 1928 (Kasuya 2016).

Three banks were established by the Japanese in Hawaii: Japanese Bank in 1909, Pacific Bank in 1913, and The Sumitomo Bank of Hawaii (a subsidiary of Sumitomo Bank) in 1916. Although Japanese Bank was closed in 1915, the other two banks continued operation until the outbreak of the Second World War. In California, ten banks were founded by the Japanese and two of them, the Golden Gate Bank and the Japanese American Bank, established Yokohama branches, but eight banks disappeared by the outbreak of the First World War (Wilkins 1989, p. 461). Among the two surviving banks, Nippon Bank of Sacramento was taken over by the Sumitomo Bank of California and Industrial Bank of Fresno was bought by Americans in the 1920s. In Washington State, three banks were established before the war and all of them survived until the 1920s. However, in 1927, Pacific Commercial Bank merged with the other two banks, but it was ordered closed by the financial authorities in 1931. On the other hand, the Sumitomo Bank of Seattle was established in 1919. As a result, in the USA, only Pacific Bank in Honolulu and three Sumitomo subsidiary banks (in Honolulu, Sacramento, and Seattle) continued to be managed by the Japanese until their assets were frozen in 1941.

Finally, as the number of Japanese immigrants to Brazil increased significantly after the 1920s, four banks were founded in Brazil by the Japanese in the 1930s, and the number of offices operated by these banks rose to thirty-five by 1941 (Banco América do Sul 1960, p. 22). Casa Bancaria Bratac de Carlos Y. Kato, one of the four, received deposits from and made loans to immigrated Japanese farmers. As the Brazilian government did not allow banks to be established by foreigners, it was renamed Banco América do Sul, established by a native Brazilian and two naturalized Japanese-Brazilians (Banco América do Sul 1994).

The number of offices of Japanese banks abroad increased significantly after the First World War, with Korea, Taiwan, and Manchuria the largest recipients (Table 3). The number of offices of Japanese banks established outside of Japan proper increased not only because the Japanese established more banks and offices but also because banks that had been controlled by native people came under Japanese control in Taiwan, Korea, and Manchuria. Moreover, most offices were established by banks founded outside of Japan proper, and the number of offices of GRBs such as the BoT, the BoC, Korea Development Bank, and Industrial Bank of Manchuria was very large. Because ordinary banks established outside of Japan proper had few offices outside the regions where their head offices existed, they played a limited role in foreign exchange business between their regions and other regions. There were no "free-standing" banks such as CBIAC in Japan (namely, those with head offices in Japan and branch networks in a specific region) because Japanese people could expect almost the same legal protection in Taiwan, Korea, and the KLT, and similar protection in Chinese settlements, as in Japan proper. On the other hand, banks headquartered in Japan proper established a modest number of overseas branches, but they played a significant role in financing foreign trade among Japan proper and foreign countries.

Table 3 Number of Japanese banks' offices outside Japan proper before the Second World War

	1887	1897	1907	1917	1927	1937
By office status						
Head offices[1]	0	0	12	31	38	31
Branches and agencies	3	10	49	91	238	287
Sub-branches	6	10	25	35	29	50
By office location						
Taiwan	0	4	8	23	36	75
Korea	5	8	31	37	110	122
South Sakhalin	0	0	3	4	9	14
Guannei	0	2	11	25	35	29
KLT	0	0	2	6	12	15
Manchuria including SMRZ	0	0	8	35	53	57
Asia other than Korea and China[2]	0	1	3	9	21	17
North America including Hawaii	2	3	18	14	18	17
Europe	2	2	2	3	7	8
Oceania	0	0	0	1	1	1
Central and South America	0	0	0	0	2	12
Africa	0	0	0	0	1	1
By bank						
YSB	4	8	20	25	37	35
BoT	0	0	8	27	29	30
BoC	0	0	0	26	29	22
Other special banks	0	1	1	3	60	129
Mitsui, Mitsubishi, and Sumitomo Banks	0	0	0	6	16	16
Other ordinary banks headquartered in Japan	5	11	40	17	20	10
Ordinary banks founded outside Japan proper	0	0	17	53	114	126

Sources MoF (1905–1937) and other statistical sources
Notes (1) "Head offices" refers to the number of banks established outside Japan proper. (2) Includes the Russian Far East. (3) As YSB continued to regard its two California subsidiaries as a branch (San Francisco) and a sub-branch (Los Angeles) after their incorporation, they are counted as a branch and a sub-branch respectively in this table

4 Japanese Banks' Foreign Exchange Business

4.1 Correspondent Networks

In this section, I explore how Japanese banks competed with foreign banks and among themselves in the foreign exchange business. Because most banks generally began foreign exchange business using correspondent banks before establishing their own branches (Merrett 1995), I analyzed the correspondent networks of Japanese banks. First, I expected banks to make correspondent contracts with banks having offices where their customers' trade partners were located. The regional distribution of the total amount of Japanese imports and exports in 1912 was Asia: 41.8%; Europe: 27.8%; North and Central America: 26.3%; Oceania: 3.0%; Africa: 0.7%; and South America: 0.3%; therefore, I expected that correspondent networks would be dense in the former three regions and sparse in the latter three regions. Second, because banks must find correspondent banks even though they are unknown on the foreign markets at the time they launch their foreign exchange business, I expected they would first ask intimate banks to be their correspondents. Therefore, I expected Japanese banks would have made correspondent contracts with foreign banks that had offices in Japan such as HSBC or CBIAC.

Some Japanese banks occasionally published their correspondent banks in their semi-annual reports to shareholders in their early stages of their foreign business because the number of correspondents was small and publishing the list was relatively easy (Table 4). Actually, the BoC, Sumitomo Bank, and Daihyaku Bank (which began to buy silk export bills in 1879 and was one of the first banks that did such business in Japan [Hara 1937, p. 330]), had many correspondents in Asia, Europe, and North America and few in other regions. Moreover, they made correspondent agreements mainly with Japanese GRBs and foreign banks that had offices in Japan. While Mitsui Bank had no correspondent agreements with banks that had offices in Japan, all of its correspondents were located in Europe, North America, and Asia.[4] Even the government-related YSB, which had six branches in Asia, two in Europe, and three in the USA by 1902 had few correspondents in Africa and South America (though it had many correspondents in Oceania), and used HSBC and CBIAC as correspondents. On the other hand, the BoT, whose business territory was stipulated as South China and South Asia, had many correspondents in Africa and South America, as well as Oceania, and made no correspondent agreements with foreign banks that had offices in Japan. During the booming period in the midst of the First World War, the BoT attempted to facilitate trade with Africa and South America, where Japanese trade had been scarce and few foreign exchange services had been provided by Japanese banks.

4.2 *Competition Between Japanese and Foreign Banks for Japanese Markets*

Soon after the opening of Japanese ports to Western countries, all foreign trade was conducted by foreign merchants and financed by foreign banks. The ratio of exports and imports conducted by Japanese merchants to the total amount increased gradually, as did the ratio of bills bought and sold by YSB to the total amount of export and import bills. By 1911, the share of the total amount of foreign exchange

[4]Mitsui and Co. had offices in Europe and the USA and the House of Mitsui was well known there.

Table 4 Distribution of correspondent banks' offices

	YSB 1902	BoT 1918	BoC 1920	Sumitomo 1916	Daihyaku 1912	Mitsui 1916
Classified by location of offices						
Taiwan	11	–	3	12	0	0
Korea	5	0	–	21	0	0
Manchuria	4	0	16	10	6	0
Guannei	11	2	13	32	10	0
Asia	10	18	1	21	8	0
India	1	18	1	11	3	1
Europe	19	23	3	24	9	9
North America	12	28	6	18	8	3
South America	1	12	0	0	0	0
Oceania	35	23	0	0	3	0
Africa	0	30	0	2	0	0
Classified by correspondent banks						
YSB	–	0	12	13	17	0
BoT	8	–	10	19	4	0
BoC	0	0	–	13	0	0
HSBC	1	0	0	19	0	0
CBIAC	3	0	1	18	7	0
IBC	0	0	0	13	0	0
DAB	0	0	0	10	0	0
Others	97	154	20	46	19	13
Total	109	154	43	151	47	13

Sources BoT (1919, p. 364) for the BoT, Mitsui Bank (1957, p. 193) for Mitsui Bank, and each bank's semi-annual report to shareholders for others

Notes (1) For the BoC, the number of correspondents in Korea is excluded, and similarly for the number of correspondents in Taiwan for the BoT. (2) The number of correspondents in Far Eastern Russia is included in Asia. (3) When Bank A designates Bank B's London and Shanghai offices as correspondents, they are classified as follows: Europe 1 and Guannei 1 in the upper half and Bank B 2 in the lower half for Bank A's column

of each bank was YSB: 45%; HSBC: 29%; CBIAC: 12%; IBC 7%; other banks 7% (MoF 1940, p. 480). Although there are no detailed statistics, the Banking Bureau (1904–1935) began to publish the total amount of exchange bought and sold by foreign banks in Japan from 1904, that of ordinary banks from 1909, and that of the BoC from 1918. Therefore, the market shares of YSB, BoT, BoC, ordinary banks, and foreign banks are calculated here based on the Banking Bureau statistics (1904–1911) every five years after 1905, because statistics for YSB and the BoT are available from earlier years.

Banks generally dealt in the following two exchanges for international finance:

(1) exchanges (e.g., bills of exchange) bought in Place A and collected in Place B, and
(2) exchanges (e.g., telegraphic transfers) sold in Place C and paid in Place D.

The Banking Bureau (1904–1911) added up the amount of (1) for Place A and added up the amounts for all the places. The added amount was called *muke kaigawase* (nostro accounts, exchanges bought). Second, it added up the amount of (1) for Place B and added up the amounts for all the places (*uke kaigawase*, vostro accounts, exchanges bought). In the same way, it added up the amount of (2) for Place C and further added up the amounts for all the places (*muke urigawase*, nostro accounts, exchanges sold); added up the amount of (2) for Place D and further added the amounts for all the places (*uke urigawase*, vostro accounts, exchanges sold). Naturally, if all the exchanges were transacted between branches of a bank, adding up these four kinds of figures was double counting. In fact, as a bank transacted with correspondent banks as well as within its branches, however, some portion constituted double counting but the remaining portion did not. Because the figures that distinguished transactions with correspondents from those within branches are not available, the sum of the amounts of the four kinds of exchanges is used here as the total amount of foreign exchange transactions.

While the total amount of foreign exchange transactions of Japanese banks such as YSB, the BoT, the BoC, and ordinary banks includes the amounts transacted between foreign places (third-country transactions), however, that of foreign banks does not. In order to compare the amounts for Japanese banks with those for foreign banks, it is necessary to deduct the amount of third-country exchange transactions from the total amount. To calculate the market share of banks on the Japanese foreign exchange markets, however, two more corrections are necessary. First, as the Banking Bureau (1904–1935) lacks the amounts for foreign banks from 1922 to 1925, the figure for foreign banks in 1925 is computed with linearly interpolating figures for 1921 and 1926. Secondly, the Banking Bureau's figures for ordinary banks after 1928 lack the distinction between figures for third-country transactions and those for exchanges bought, collected, sold, and paid in Japan proper (homeland transactions). Here, the amount of homeland transactions by ordinary banks for 1930 and 1935 are estimated by deducting the amount of third-country transactions of Mitsui, Mitsubishi, and Sumitomo Bank exchanges from the total amount of foreign exchange transactions of ordinary banks. Although some ordinary banks had offices in Taiwan and Korea, it is impossible to distinguish the transactions of Japan proper from those of Taiwan and Korea. In this way, the shares of banks for foreign exchange markets in Japan proper are calculated (Table 5).

The market shares of foreign banks and YSB before the First World War were around 50% (see Table 5) and these figures are near to those in 1911 mentioned above. While foreign banks' share declined significantly during and soon after the War, it increased in the 1920s as IBC established new offices and other banks also founded offices in Japan. However, the recovery was modest and their share was

Table 5 Market shares on the Japanese foreign exchange markets

	YSB	BoT	BoC	Ordinary banks	Foreign banks
1905	0.51	0.01	–	NA	0.48
1910	0.43	0.01	–	0.07	0.49
1915	0.58	0.11	NA	0.06	0.26
1920	0.45	0.16	0.04	0.19	0.16
1925	0.32	0.12	0.04	0.31	0.23
1930	0.32	0.05	0.05	0.30	0.29
1935	0.32	0.05	0.05	0.31	0.26

Sources Banking Bureau (1904–1935); Mitsui, Mitsubishi, and Sumitomo banks' semi-annual reports to the MoF in 1930 and 1935

much lower than before the War. Although the number of foreign banks' offices was greater in the 1920s than before the War, their market share was smaller.[5]

4.3 *Competition Among Japanese Banks and Ordinary Banks' Growth as Global Banks*

At the same time, YSB's share also fell facing competition with the BoT and ordinary banks, though BoC's share did not increase much. The BoT went bankrupt in 1927, however, because it accumulated a huge amount of bad loans to trading firms such as Suzuki & Co. and its market share shrank significantly after the bankruptcy. On the other hand, ordinary banks' share continued to increase until the middle of the 1920s and remained at almost the same level afterward. Ordinary banks' foreign exchange business developed significantly during and soon after the First World War when Mitsui, Mitsubishi, and Sumitomo banks established foreign offices and subsidiaries.

After the establishment of foreign branches, transactions between foreign branches increased. In particular, after branches in global money centers such as London and New York were founded, transactions with offices in money centers or between them skyrocketed. Therefore, the ratio of the amount of homeland transactions to the total amount of foreign exchange transactions (homeland ratio) in a bank is expected to decrease after the establishment of foreign offices. The decline in homeland ratio could be one indicator of maturity as a global exchange bank. In order

[5]Because Itoh (1989, pp. 26, 160, 312) compares Japanese banks' total amount of foreign exchange transactions, which includes third-country transactions, to foreign banks' amount of foreign exchange transactions, which contains only transactions from and to Japan proper, he underestimates foreign banks' market share. On the other hand, Tatewaki (2002, p. 80) compares foreign banks' amount of foreign exchange transactions relating to Japan proper with Japan's current accounts and overestimates foreign banks' markets shares because banks bought and sold a large amount of foreign exchanges not directly related to trades of goods and services.

to compare YSB and ordinary banks, of which head offices were located in Japan proper, with the BoT and the BoC, of which the head offices were located in Taipei and Seoul, respectively, Imperial Japan (including Taiwan and Korea) is a better denotation for homeland in this case than Japan proper. Therefore, the homeland ratio is calculated as follows:

homeland ratio = the amount of foreign exchanges bought, collected, sold, and paid in Imperial Japan/the total amount of foreign exchange transactions

YSB's homeland ratio was already low in 1905 when it had seventeen offices outside of Japan proper (no offices in Taiwan or Korea) and it remained at almost the same level afterward (Table 6). In 1905, the BoT's ratio was much higher than YSB's because it had only three offices in China, as well as offices in Taiwan and Japan proper, but its ratio soon fell to almost the same level as YSB's. After bankruptcy, however, its ratio increased slightly, perhaps indicating a shift in purpose from a bank assisting international trade to bank primarily for Taiwan. In 1920, the BoC's ratio was also the same level as the BoT's ratios before the War or after its bankruptcy. Before the War, ordinary banks only dealt in exchanges between Imperial Japan and foreign countries (homeland ratio equals 1). The ratio, however, fell sharply after the War and reached the same level as that of the BoT and the BoC by 1925, when three *zaibatsu*-related banks almost finished establishing their foreign offices.

Ordinary banks increased foreign exchange transactions significantly around 1920. While Mitsui, Mitsubishi, and Sumitomo banks seem to have transacted a large number of exchanges, it is necessary to investigate other banks' foreign exchange businesses because several banks (other than the six banks that had offices outside of Imperial Japan) had bankers, agents, or correspondent banks in London and their foreign exchange business seems to have developed at least to some extent (Mollan 2012; Mollan and Michie 2012). In the nineteenth century, only YSB had a branch, and no other banks even had correspondents, in London. In the 1900s, however,

Table 6 Homeland ratios of Japanese banks

	YSB	BoT	BoC	Ordinary banks
1905	0.28	0.69	–	NA
1910	0.25	0.37	–	1.00
1915	0.34	0.30	NA	1.00
1920	0.30	0.24	0.37	0.52
1925	0.23	0.33	0.38	0.36
1930	0.27	0.39	0.40	0.31
1935	0.27	0.38	0.39	0.36

Sources Banking Bureau (1904–1935); Mitsui, Mitsubishi, and Sumitomo banks' semi-annual reports to the MoF in 1930 and 1935
Note Homeland ratio = the amount of foreign exchanges bought, collected, sold, and paid in Imperial Japan /the total amount of foreign exchange transactions

Table 7 Japanese banks that had an office, a banker, an agent, or a correspondent in London

Year	No. of banks	Bank name
1886	1	YSB
1891	1	YSB
1896	1	YSB
1901	1	YSB
1906	1	YSB
1911	6	YSB, BoT, BoK, IBJ, Sumitomo, Jugo
1916	8	YSB, BoT, BoC, IBJ, Sumitomo, Jugo, Mitsui, Daihyaku
1921	14	YSB, BoT, BoC, IBJ, Sumitomo, Jugo, Mitsui, Daihyaku, Daiichi, HCB, Kajima, Mitsubishi, Shichijushi, Yasuda
1926	15	YSB, BoT, BoC, IBJ, Sumitomo, Jugo, Mitsui, Daihyaku, Daiichi, Kajima, Mitsubishi, Yasuda, Omi, Yamaguchi, Kanda
1931	13	YSB, BoT, BoC, IBJ, Sumitomo, Mitsui, Kawasaki Daihyaku, Daiichi, Mitsubishi, Yasuda, Yamaguchi, Sanjushi, Nagoya
1936	13	YSB, BoT, BoC, IBJ, Sumitomo, Mitsui, Kawasaki Daihyaku, Daiichi, Mitsubishi, Yasuda, Nagoya, Sanwa, HCB

Sources Banking Almanac and *Bankers' Almanac*, each year

GRBs such as the BoT, the BoC (BoK), and IBJ, and two ordinary banks, Sumitomo Bank and Jugo Bank, had correspondents in London, and more ordinary banks followed suit during and after the First World War. While some banks disappeared through bankruptcy or mergers, others entered the London market through correspondents, and the number of banks with London offices or agents was relatively stable (Table 7).[6] The correspondent bank for Nagoya Bank and Hokkaido Colonization Bank (HCB, a GRB for the development of Hokkaido) was YSB, and their foreign exchange business was limited.

The amount of exchange transacted by Japanese banks increased significantly in the second half of the 1910s (Table 8). While YSB's transactions increased more than three times, other banks' increases were even more rapid. While Sumitomo Bank dealt in the largest amount of exchanges among three *zaibatsu* banks in 1920, the number of Mitsui Bank's transactions was ten times larger in 1925 as it was in 1920 and its transaction amount exceeded that of the BoT by 1925. Mitsui Bank's transactions continued to increase, and by 1930, they reached almost half of YSB's. In the 1930s, however, it decreased slightly, and Sumitomo Bank's fell sharply, although other banks' transactions increased significantly. While the predominance of *zaibatsu* banks over other ordinary banks faded in the 1930s, their individual foreign exchange transactions were more than twice as large as every other bank's

[6]Shichijushi Bank, which was based in Yokohama and provided financing for exporting silk to the USA, closed its doors in 1920 and Jugo, Kajima, Omi, and Kanda banks followed suit facing severe bank runs in 1927. Daihyaku Bank merged with Kawasaki Bank to form Kawasaki Daihyaku Bank in 1927 and Yamaguchi, Sanjushi, and Konoike banks, which were all based in Osaka, merged into Sanwa Bank in 1933.

Table 8 The amounts of foreign exchange transactions and deposits (¥ million)

	1915	1920	1925	1930	1935	Deposits Dec. 1935
YSB	3061.0	10,139.9	13,905.2	8445.1	11,512.4	–
BoT	695.7	4690.6	4868.7	912.0	1333.0	–
BoC	NA	778.1	903.2	847.4	1226.7	–
Mitsui	43.1	525.7	5043.1	3829.7	3633.9	798.3
	NA	141.3	1428.1	1119.8	860.7	–
Mitsubishi	27.0	415.1	1730.9	1832.3	3330.9	731.7
	NA	149.3	786.6	741.8	1158.8	–
Sumitomo	NA	1135.7	1864.3	1424.4	678.8	949.3
	NA	499.1	697.1	470.9	199.2	–
Daiichi	NA	NA	NA	57.1	249.5	915.9
Yasuda (1)	7.4	48.5	61.9	72.0	147.2	828.8
Sanjushi (2)	11.5	22.1	36.8	28.9	80.3	1109.9
Yamaguchi	NA	NA	NA	33.3	–	–
Konoike	NA	0.1	0.1	1.4	–	–
Daihyaku (3)	9.1	73.2	88.0	214.9	255.2	371.5
Nagoya	NA	1.1	0.3	0.3	5.4	130.0
Jugo	NA	0.2	43.0	5.2	35.6	174.6
Kajima	NA	9.5	6.0	–	–	–
Omi	0.3	5.9	16.6	–	–	–
Aichi	0.1	13.6	0.9	0.0	2.0	142.0

Sources MoF (1905–1937) for YSB; semi-annual reports to shareholders or the MoF for other banks
Notes (1) Daisan before 1920; includes figures of Kyoto and Nijuni banks in 1920. Daisan, Kyoto, and Nijuni banks merged with Yasuda Bank in 1923. (2) Sanwa in 1935. Sanjushi, Yamaguchi, and Konoike banks merged into Sanwa Bank in 1933. (3) Kawasaki Daihyaku after 1930. (4) Kajima Bank and Omi Bank closed their doors in 1927. (5) Only ordinary banks' deposits are listed. (6) The amount of homeland transactions is listed on the second line for Mitsui Bank, Mitsubishi Bank, and Sumitomo Bank respectively. The amounts of homeland transactions were obtained as follows: for 1920, semi-annual reports to the MoF for the second half of 1920 are available for the three banks; I calculated the full-year amount of homeland transaction of each bank by multiplying each bank's homeland ratio for the second half by each bank's full-year total amount of foreign exchange transactions. For 1925 for Mitsui Bank, the semi-annual reports to the MoF are available for both periods, so the full-year homeland amount was available. For Mitsubishi Bank, only the semi-annual reports to the MoF for the second half of 1924 and the second half of 1926 are available; therefore, I calculated the full-year homeland transaction by multiplying the average of homeland ratios for the second half of 1924 and the second half of 1926 by the full-year amount of total foreign exchange transactions of 1925. For Sumitomo Bank, the semi-annual report to the MoF for the second half is available; therefore, I calculated the full-year homeland transaction by multiplying the homeland ratio for the second half by the full-year total amount of foreign exchange transactions. For 1930 and 1935, all the semi-annual reports to the MoF are available; therefore the numbers were simply obtained

amounts. In 1935, broadly speaking, the more deposits a bank collected, the more it transacted foreign exchanges, but Mitsui Bank and Mitsubishi Bank were clear outliers.

Because the three *zaibatsu*-related banks had offices in London, New York, Shanghai, and other places outside Imperial Japan, their homeland transactions were considerably smaller than the total amount of their transactions. On the other hand, other ordinary banks' amounts of homeland transactions are unknown due to lack of data. As other ordinary banks headquartered in Japan proper had no offices outside of Imperial Japan, however, their total transactions consisted almost entirely of homeland transactions.[7] Therefore, the amount of individual *zaibatsu*-related banks' homeland transactions is compared with the total amount of foreign exchange transactions of individual non-*zaibatsu*-related banks. Naturally, the former banks' predominance was less significant especially in the 1930s when the latter banks' transactions increased rapidly. The three banks' predominance depended on global operations through London, New York, and Shanghai, and once financial controls and trade blocks by the major countries' governments were tightened, their dominance waned further, especially after the outbreak of the Second World War.

5 Japanese Customers of Japanese Banks in Shanghai

In the 1910s, some Japanese banks were established in cities in Guannei because medium- or small-sized merchants and industrialists could not borrow money from YSB, which already had offices there. In fact, almost all of the customers of Shanghai Bank (one of the banks established by the Japanese) were infamous Japanese residents in the 1920s (Kasuya 2016). While it is well known that six Japanese foreign exchange banks had large trading firms as their customers, their customers outside of Japan have not been investigated because lists of the customers of the foreign branches of these banks are unavailable. The Japanese Chamber of Commerce and Industry in Shanghai (JCCIS), however, published a *Guide to Japanese business in Shanghai*, containing membership information such as their business, capital, starting year of operation in Shanghai, and so on since 1919, and its 1935 edition published its members' banks for the first time. Although Japanese banks' foreign customers cannot be determined with this guide, the Japanese customers of Japanese banks in Shanghai can be. In 1935, eight Japanese banks had offices there: YSB (opened in 1893), the BoT (1911), Sumitomo Bank (1916), Mitsui Bank (1917), Mitsubishi Bank (1917), the BoC (1918), Shanghai Bank (1918), and Hankow Bank (1930); therefore, all six Japanese foreign exchange banks and the two banks established in China can be compared.

[7] In 1935, Daiichi Bank had two offices in Korea, Yasuda Bank three, Sanwa Bank one, and Juhachi Bank nine (Juchachi Bank withdrew from Korea completely the next year). Also, in Taiwan, Japan Hypothec Bank (a GRB) and Sanwa Bank each had three offices.

The number of YSB's customers was the largest, with approximately twice as many customers as any of the other five exchange banks; the numbers of customers of the two banks in China was much smaller (Table 9). The number of customers of Hankow Bank was larger than that of Shanghai Bank, which was established twelve years earlier, because the former bank took over the customers of the Shanghai Credit Association, which was established by customers of the failed Dadong Bank (Kasuya 2016). The average capital amounts of customers of Mitsubishi Bank and Sumitomo Bank were the largest; those of the other four exchange banks were two thirds or one half of the former two banks'; and capital amounts of the two banks in China were far smaller. The latter two banks had no customers with capital of ¥1 million or more; they were banks for small-sized merchants and industrialists in Shanghai. The six exchange banks, however, had small customers as well as large customers as late as 1935. Half of the six banks' customers had head offices in Shanghai, though all of the customers but one of the two small banks were located there. YSB had a longer history there, but customers' average years of operation were about the same among the eight banks. The six banks shared the same customer base, which differed from that of the two small banks.

However, the order in which banks were listed in the *Guide to Japanese business in Shanghai* varied by customer, with, for example, one customer listing YSB first and Sumitomo Bank second, and another listing Sumitomo Bank first, then YSB. Therefore, the editor of the guide seems to have had no preference for the order of listing the banks, and simply listed them in the same order that the customers did. The bank listed first among banks, or as a sole bank, is assumed to have played an important role for the customer. Sixty-five customers out of seventy-nine customers that transacted with YSB listed that bank first, and YSB's first bank ratio was 85%. The ratio of the other five exchange banks ranged from 28% for Mitsui Bank to 56% for Sumitomo Bank and was almost the same for the two banks in China. In particular, out of twenty-two customers with capital of ¥10 million or more, fifteen listed YSB first, three listed Mitsubishi Bank, two Sumitomo Bank, one Mitsui Bank, and one Banque Belge pour l'Etranger.[8] In this sense, YSB was very highly rated by Japanese merchants and industrialists, especially by large ones in Shanghai.

6 Concluding Remarks

In Korea and Manchuria, GRBs' influence grew significantly after the First World War. On the other hand, although a large number of banks were established by the Japanese in Taiwan, the USA, and Guannei before the War, the number of Japanese banks diminished after the war. In the interwar period, state control over banks was strengthened and the consolidation of banks advanced not only in Japan proper but also in these regions.

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[8]Banque Belge pour l'Etranger was established in Brussels in 1822 and founded its Shanghai branch in 1902 (Ji 2003, 77).

Table 9 Japanese customers of Japanese banks in Shanghai in 1935

	Average capital of customers (¥000)	No. of customers with capital listed	No. of customers classified by capital holdings				No. of customers head-quartered in Shanghai	Average years of customers' operation in Shanghai	No. of customers that listed the bank first
			Less than ¥100,000	¥100,000 to ¥1 m	¥1 m to ¥10 m	¥10 m or more			
YSB	7773	79	30	19	11	19	45	18.4	67
BoT	5017	43	19	12	6	6	23	16.4	19
BoC	6520	40	13	12	7	8	22	15.7	14
Mitsui	8007	32	8	10	6	8	17	17.8	9
Mitsubishi	12,204	34	7	9	7	11	17	17.2	14
Sumitomo	11,945	41	13	12	6	10	21	19.0	23
Shanghai	327	5	0	5	0	0	4	14.8	1
Hankow	63	24	19	5	0	0	23	12.7	9
Chinese banks	8684	16	4	7	2	3	6	16.8	0
Other banks	24,226	8	1	1	0	6	2	24.6	1

Source JCCIS (1935)
Note (1) Out of 200 customers on the guide the 159 which had listed both capital and bank(s) are analyzed. (2) Because the capital of a firm was denominated in various currencies such as the Japanese yen and the Shanghai tael (which had already been abolished in 1933) all currencies were converted into yen at the market rate of September 1935, just before the currency reform of November 1935 (some abolished currencies are converted into yen through yuan in silver dollars). (3) One customer listed Yasuda Bank first and another did so with Sanwa Bank, though these two banks had no offices in Shanghai

While YSB's market share of the Japanese foreign exchange markets increased before the War by drawing customers from foreign banks, it decreased due to competition with the BoT in the 1910s and competition with ordinary banks (in particular the three *zaibatsu*-related banks) in the 1920s. Foreign banks' shares continued to decline in the 1910s, though they recovered in the 1920s and 1930s. YSB was the most internationally active among Japanese banks, though the BoT, BoC, and three *zaibatsu*-related banks also operated internationally (albeit slightly less so than YSB) through the activities of their branches in London, New York, and other foreign cities. Among ordinary banks, Mitsui, Mitsubishi, and Sumitomo banks' foreign transactions were far larger than those of other ordinary banks, as the three banks' foreign branches (especially in London and New York) played very important roles. While YSB's customers were as large (in terms of capital) as those of other five exchange banks in Shanghai in 1935, YSB was most relied upon by Japanese merchants and industrialists.

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Chapter 12
Chinese International Banking

Tomoko Shiroyama

Abstract After China opened the five ports to foreign trade with the treaty of Nanjing in 1842, foreign banks initially intermediated financial transactions between China and abroad. Although the dominance of foreign banks continued in the twentieth century, as this chapter demonstrates, Chinese financial institutions also played the key roles. As European powers retreated from the financial market of China at the time of World War I, the modern banks led by the bankers who had studied abroad and worked for the foreign banks, such as Shanghai Commercial and Savings Bank and Bank of China, participated in international banking. Even before the opening of ports, the southern provinces of Guangdong and Fujian had been the basis for Chinese traders. Once the flow of goods and people to and from abroad increased from the mid-nineteenth century, the networks of remittance houses provided them with the necessary services. Against this local background, the modern banks including Bank of Canton and Bank of East Asia developed into the financial institutions to cater for Chinese businessmen. Examining the development of the Chinese international banks during the inter-war period, this chapter argues that Chinese traders and businessmen successfully mobilized the techniques and instruments that they had historically cultivated to cope with the new business opportunities.

Keywords Shanghai commercial and savings bank · Bank of China · Bank of Canton · Bank of East Asia · Remittance houses

1 Introduction

China's foreign economic relations significantly developed during the century from 1840 to 1930s. With Opium War and the Treaty of Nanjing in 1842, China opened the five ports to foreign trade. The series of treaties signed between China and foreign powers in the late nineteenth and the early twentieth centuries increased the number of treaty ports to forty-three in 1907 spreading from the north of Manchuria to

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Guangdong in the south as well as the coast on the East China Sea to inland Tibet. Newly involved in the global web of commerce, China's foreign trade grew from the mid-nineteenth century. The value of China's foreign trade,164 million Hai-Kuan Taels (HKT) (78 million HKT for imports, 86 million HKT for exports) in 1872, increased almost 14 times to 2,372 million HKT (1,448 million HKT for imports, 924 million HKT for exports) in 1931, with the steady increase over those forty years.[1]

Merchandise trade consisted only a part of China's foreign economic relations. Besides payments related to merchandise trade and specie movements, China engaged in more complicated transactions with her foreign counterparts in the early twentieth century. Chinese overseas remittance was the key item of in-payment along with the expenditures by foreign consulates, military forces, and merchant vessels. The investments by both foreign governments and businesses increased, while foreign loans incurred payment of interests and amortization (Remer 1933, p. 207).

Who dealt with those increasing and diversifying financial transaction between China and abroad? It was foreign banks in China that initially met the new demand for financial institutions to intermediate between foreign and Chinese merchants after 1842. Local traditional banks never financed foreign trade directly nor engaged in the foreign exchange business. On the other hand, Oriental Bank Corporation opened its premise in Shanghai in 1848, followed by its fellow British banks including Mercantile Bank of India, London, and China in 1854, and Chartered Bank of India, Australia, and China in 1857. Hong Kong and Shanghai Banking Corporation organized in 1869 with its head office in Hong Kong became the largest and the most important foreign bank in China. In addition to foreign exchange business, the bank was designated the depository bank for certain Chinese government funds such as the receipts from the Maritime Customs, Salt Gabble, and other government revenues to perform the amortization and interest services on many of the Chinese government loans (Lee 1926, pp. 91–92). As the banks of other than British origin participated in China market, international banking expanded from 1891 to the eve of World War I in 1914. The Deusch-Asiatische Bank was established in that year, followed by the first Japanese institution, the Yokohama Specie Bank in a year after. Soon after the Sino-Japanese war in 1895, the agreement was signed to establish the Russo-Chinese Bank. In 1899, the Banque de l'Indochine opened a branch in Shanghai, followed in 1902 by the International Banking Corporation (later owned by the National City Bank of New York) and the Banque Belge pour L'Etranger. Japanese banks made an extensive development during World War I. The Exchange bank of China, a joint Sino-Japanese enterprise, was organized in 1917. The Bank of Taiwan and the Bank of Chosen, the colonial banks of Japan, went to Shanghai market during the war, while the major banks like Mitsui, Mitsubishi, and Sumitomo also opened branches there in 1916 and 1917. After the several more banks entered the China market in the 1920s and the 1930s, the total number of the foreign banks at the end of 1936 reached 33 (Tamagna 1942, pp. 24–26).

[1]Hai-Kuan Tael is a silver-based account unit used by Chinese Maritime Customs, equivalent to 1.55 Chinese silver dollars or yuan.

Although the initial task for those foreign banks was to cater for trades and businesses by the merchants from their home countries, their financial services were not restricted to the rule as such. Not only foreign traders but also Chinese merchants, businessmen, and local financial institutions used foreign banks with extensive branch networks in the world for their transactions with abroad. Their financial networks linking China with London and New York became particularly important from the late nineteenth century when the gold standard became the dominant regime of the international monetary system. The currencies of China's trade partners were on the gold standard, linked each other at fixed rates of exchange, but China continued her silver-based monetary system. Exchanging silver-standard Chinese currency with the currencies on the gold standard was the crucial but difficult task for any traders engaging in businesses in China. Outside China, silver was an internationally traded commodity, whose price was influenced by various factors not necessarily related to China. On the other hand, because foreign exchange transactions in China were not controlled, Chinese exchange rate was inevitably influenced by changes in the international price of silver. To hedge the risks of exchange rate with counter transactions, the access to London and New York, the centers of global finance and trade of silver, was critically important (Shiroyama 2008, p. 27).

Given this dominance of foreign banks as a group, what role did Chinese banks play in international banking? Exploring this question, Sect. 2 pays attention to the rise of Chinese banks in international banking during the inter-war years. As European powers retreated from the market, the bankers who had studied abroad and worked for the foreign banks sought to take the opportunity to participate in international banking.

More importantly, this chapter argues that focusing on China as a nation masks the regional diversity of Chinese economy in which local financial institutions operated. In terms of China's foreign economic relations, Guangdong and Fujian provinces on the southern coast of China had been engaging in trade and outward migration with South East Asia for several centuries. Opening ports in the mid-nineteenth century accelerated the flow of goods and people to and from abroad. The networks of remittance houses provided financial services necessary for the related transactions. Even if different from the conventional model based upon international banks, it is critical to investigate the networks of small-scale financial institutions to which Sect. 3 turns to.

World War I was also the turning point for the group of Chinese financial institutions in South China including Hong Kong. Chinese businessmen who accumulated wealth through the extra war-time demand moved into industrial ventures and multi-sectional and national operations. In the meantime, the conventional facilities provided by local financial institutions became inadequate, but foreign banks were not ready to directly deal with them. It was some modern banks founded by Chinese bankers, the Bank of East Asia among the others, that stepped up to meet their demand (Sinn 1994, pp. 6–7). Section 4 examines this rise of modern Chinese international banks in South China.

Conclusion summarizes the findings and considers their implications in terms of international banking in Asia and of Chinese and Asian economy in the early nineteenth century.

2 Chinese Modern Banks' Catch-Up in International Banking During the Inter-War Period

Given the dominance of the foreign banks in the foreign exchange market in China, it had not been easy for Chinese modern banks to compete with them. It was not until the end of World War I that a couple of them managed to take part in the market.

2.1 Shanghai Commercial and Savings Bank

Among the 67 Chinese modern banks in business at the end of 1917, Shanghai Commercial and Savings Bank (SCSB) was the forerunner in international banking (Cheng 2003, p. 42). Chen Huide (courtesy name Guangfu, 1881–1976), the founder and the manager of the bank, deeply understood the foreign exchange management through his education abroad, which was exceptional for his contemporaries. Chen was born into a merchant family in Zhenjiang, Jiangsu province on the coast East China Sea. At the age of twelve, he started to work for a custom declaration firm where he learned English. After his business trip to the USA related to the Chinese delegation to the Louisiana Purchase Exposition in St Louis in 1904, he stayed in the USA for five years. During that time, he studied at Simpson College in Iowa and Ohio Wesleyan University, and finally majored banking at the Wharton School of Finance and Commerce, University of Pennsylvania. Having returned to China in 1909, Chen started his career in banking with Jiangsu Bank, a government bank created by the Jiangsu provincial government in 1913. After he left the Jiangsu Bank, he founded SCSB in 1915 with only 70,000 yuan, the smallest capitalization among modern Chinese banks in Shanghai at that time (Cheng 2003, p. 47–48). However, in only six years, the capitalization of the bank increased to 2.5 million yuan. Attracting deposits through its savings department as well as newly extending collateral loans to traders and industrial enterprises was critical for its rapid success (Cheng 2003, pp. 143–145, 148–156).

As early as in 1917, SCSB started the foreign exchange business, only second to Zhongfu Bank as Chinese modern bank. At the beginning, it exchanged agency contracts with the financial institutions, each in London, in New York, and in San Francisco. Once Word War I ended, SCSB increased the agencies abroad to fourteen, six in New York, four in Japan, and one each in England, in France, in Holland, and in Singapore. The management report in 1919 explained its high expectations for the foreign exchange business to increase the number of agencies by noting, "As the war in Europe ended, a number of countries are eager to purchase commodities. The United States and Japan will have the capacities to meet those demands, but because they rely at least half of the raw material on our country and India, it is also a good chance for us to expand foreign trade. We have contracted with the banks at the major trade centers in England, the United States, France, Holland, and Japan as agencies to deal with foreign exchange. Since then, our customers have generally been satisfied with convenience that we have provided (Zhongguo renmin yinhang 1990, p. 201)". For example, in New York, SCSB allied with the leading banks such as Chase National Bank, Irving National Bank, and American Express. In 1920, it deposited 50,000 yuan at Chase National for initial account, requesting advancements up to 250,000 US dollars. Irving National made a more generous overdraft for SCSB which amounted to 800,000 yuan by June 1921 (Zhongguo renmin yinhang 1990, p. 202).

With those arrangements, discount businesses gradually developed in the 1920s. As for import bills, the amount in 7.4 million yuan in 1921 dropped to 3 million yuan in 1923, followed by 4.4 million yuan in 1925, 6.6 million yuan in 1926. Because of the political turbulence caused by the northern expedition in 1927, the value declined to 3.7 million, but picked up with 5.8 million yuan in 1928. Compared to the import to Shanghai valued in 1927 as 450 million yuan, the discount of import bills made by SCSB was deemed small. Still, SCSB was the leader of the business among Chinese modern banks including Zhejiang Corporate Bank (approximately 4 million yuan per year), Guangdong bank (3 million yuan), Zhejiang Industrial Bank (3 million yuan), Zhongfu Bank (1 million yuan), and Gongshang Bank (1 million yuan) (Zhongguo renmin yinhang 1990, p. 207).

SCSB faced the difficult competition with the foreign banks. Discounting import trade bill, SCSB charged 7% for interest in addition to the service fee of 25–125%, but the foreign banks requested only 6% without any fee. The global branch networks made them different. Although SCSB needed to pay fee for transactions by agencies abroad, the foreign banks could use their branches without any extra charges. The financial capacity was another reason. In order to bear the high interest rates for deposits at home, SCSB had to charge at least 7% for discounting bills. On the other hand, as the cost for foreign banks to secure necessary funds was about 3%, they could find 3% of profit out of 6% (Zhongguo renmin yinhang 1990, p. 208).

Beside the competition, SCSB had to deal with the risks involved in the exchange rate. Exchanges between gold-standard countries were fixed based upon the ratio of the gold content of the two coinages in question. However, with exchanges between China, virtually only one country on the silver-standard, and gold-standard countries, there was no fixed exchange rates. When quoted a particular price for silver in London (shillings per ounce), the value of silver per unit of Shanghai silver currency in terms of London's gold currency (shillings per tael or yuan). SCSB was particularly concerned about the losses incurred by the rise of exchange rate of British pound relative to Shanghai tael during the delivery of goods to China (Zhongguo renmin yinhang 1990, p. 208).

The sudden and large change of the exchange rate as well as the sluggish global trade during the Great Depression made the international banking in China even more difficult in the first half of the 1930s. From 1929 to 1931, China escaped a severe deflation because silver was heavily depreciated in terms of the gold-standard currencies. Once September 1931 England left the gold standard and devalued the pound starling, the consequent rise in the price of silver on the London market raised the exchange rate of Chinese currency in relation to foreign currencies. The rise in the prices hindered China's export abroad, while the decline in the prices of imported goods failed to stimulate consumption in the country. The aggression in Manchuria in 1931 followed by the attack of Shanghai in January 1932 only worsened the political and economic turmoil. SCSB could not escape from those disadvantages either. In 1932, the amount of discount of import bill decreased from 7,980,000 yuan to 5,040,000 yuan, and that of export bill recorded the sharp drop from 2,280,000 yuan to mere 440,000 yuan. With the US abandonment of the gold standard in March 1933, the US dollar depreciated by 39.2% from March 1933 to February 1934, thus produced a sharp rise of 64.5% in the price of silver in New York, and 66% in the Chinese yuan's exchange rate in terms of the US dollar. In that year, SCSB managed to pick up the foreign exchange businesses by the 100% increase of import bill and 30% of export bill.

It was the US Silver Purchase Act that had the even more devastating impacts on Shanghai foreign exchange market. It was one of the inflationary monetary and fiscal policies that the US government took to recover from the depression, targeting the states producing silver like Nevada and California. The Silver Purchase Act of 1934, which was passed by Congress on June 19, declared it to be the policy of the USA to increase its stocks of silver until they equaled one-fourth of the total monetary stocks of silver and gold. From then on, the US Treasury purchased a large amount of silver inside and outside of the country. As a consequence, the value of silver in the USA in December 1934 was 27.5% higher than in 1929, and 57.3% higher than the lowest value in 1931. In England, the value of silver was 30.7% higher than in 1929 and 53.5% higher than in 1931. The sudden and massive rise in the price of silver shook Shanghai financial market not only because the exchange rate of yuan follow it. People anticipated that unable to bear such a high rate of exchange rate, Chinese government would be forced to leave the silver standard to devalue Chinese yuan. As the rumors fueled run for foreign currencies as well as speculative transactions, the foreign exchange market in Shanghai lapsed into the serious crisis.

SCSB stuck to the conservative policy not to involve in those speculations. It was only after the currency reform in 1935, SCSB finally found itself possible to engage in foreign exchange business without concerns about the risks of changes in exchange rate. The reviving foreign export demanded not only services of discounts but also remittances and deposits in foreign currencies. In 1936, the annual amount of import bill increased 1,360,000 yuan to 7,470,000 yuan, while export bill amounted to 8,270,000 yuan with the increase of 5,870,000 yuan (Zhongguo renmin yinhang 1990, pp. 663–664). To understand the rise of SCSB in 1936, it is important to recognize that during the years of the depression, particularly after June 1934, the position of the foreign banks in Shanghai financial market significantly changed. The experience of the Bank of China, another Chinese bank engaging in international banking, illuminates this change.

2.2 Bank of China

Bank of China (BOC) was established early in 1912 on the foundation of the Shanghai branch of Daqing Bank. The Board of Revenue of Qing government founded Daqing Bank in 1905 as its central bank issuing bank notes and running the state treasury. When the Qing government fell to the revolution in 1911, the branches of Daqing Bank suffered from withdrawals. As some of them were closed down and others got independent institutions, Daqing Bank eventually was dismembered. Only the Shanghai branch was protected because of its location in the International Settlement of the city. The bank's private stockholders in Shanghai organized the Federal Association of Stockholders to keep its funds in Shanghai. When the new republican government headed by Sun Yat-sen was established, the association lobbied for the reorganization of Daqing Bank as the central bank. With the approval by the president Sun, Daqing Bank was reorganized as a central bank, called the Bank of China (Cheng 2003, pp. 29–32; Lee 1926, pp. 75–76).

However, the succeeding Yuan Shikai government dismissed this plan and set up a new central bank under the same name. The capital of the new bank was set at 60 million yuan to be evenly subscribed by the government and private investors. Although Bank of China along with newly established Bank of Communications (BOCO) enjoyed its official position, it also was forced to deal with the consistent requests from the government to advance money making up for its financial shortages. The pressure from the government culminated in May 1916 when the government ordered BOC and BOCO moratorium during which both banks had to cease redeeming their notes and other financial instruments for silver and to seal their silver reserves which were to be placed at the disposal of the government. As expected, a run broke out immediately after the moratorium order went public. Helped with the loan of 2 million yuan provided by the foreign banks, the Shanghai branch of BOC managed to meet the 1.6 million-yuan worth of convergence of banknotes and 1 million yuan-withdrawals of deposits in two days. Having survived the emergency, BOC secured more autonomy from the government with the new regulation approved in 1917 by the new administration succeeding Yuan Shikai. In 1918, the Ministry of Finance of Beijing government owned 42% of BOC stock, valued at 5 million yuan. After that, the ministry continued to sell 4,950,000 yuan of BOC stock to eleven private banks and financial institutions by 1924. As a consequent, private shares in BOC increased to 19,710,000 yuan while government shares shrank to 50,000 yuan, only 0.25% of the bank's capital (Cheng 2003, pp. 53–61).

Zhang Jiaao (or Chang Kia-ngau, courtesy name Gongquan, 1888–1979), the deputy manager of the Shanghai branch of BOC, played the key role in saving the bank from the government's encroachment in 1916. Like Chen Guangfu of SCSB, Zhang was a professional banker trained abroad. Having studied at the Institute of Modern Languages in Shanghai for several years, Zhang went to Japan in 1905 to study finance and economics at Keio University in Tokyo. Back in China, he joined Bank of China in 1913. Under the new regulation in 1917, Zhang became the chief executive of BOC (Cheng 2003, pp. 56, 60).

Zhang Jiaao initiated BOC's international banking. The new charter granted by the Nationalist government in November 1928 declared BOC as a special institution for international exchange. The head office was then transferred from Beijing to Shanghai and 5 million yuan of new capital was subscribed by the government, raising the total to 25 million yuan.

In May 1929, Zhang started the tour to Europe, the USA, and Japan to study the banking systems of the financial centers as well as to set up BOC's agencies abroad. Having traveled via Moscow, Amsterdam, and Paris, Zhang arrives in London in August where he met Philip Snowden of Treasury and Montague Norman of Bank of England. To deal with Chinese government's loans in London, Zhang deemed it crucial to found BOC's agency. Once securing their consent for opening BOC London agency, Zhang ordered the head office in China to make necessary arrangements with all the BOC branches. On November 4, 1929, Zhang held the opening ceremony of BOC London agency (Zhongguo yinhang zonghang 1990, pp. 1555–1556).

At its beginning, London agency had the three missions (Zhongguo yinhang hangshi bianji weiyuanhui 1995, pp. 194–196). The first was to deal with the management of foreign loans of the Chinese government. Those foreign loans had been handled by the groups of foreign banks since late Qing. In 1929, BOC urged the government to negotiate with the foreign banks to return the right of management to BOC. With the ministry of finance approval of BOC's negotiation with the foreign banks, BOC managed to succeed in taking back the right to handle 1895 Franco-Russian loan, the German parts of 1896 and 1898 Anglo-German loan, and the German part and a quarter of Russian part of 1913 Reorganization loan. Nonetheless, against BOC's expectation, the Nationalist government decided to make Central Bank of China take care of those foreign loans as well as other indemnities owed to the foreign governments. Unlike Yokohama Specie Bank and Bank of Japan, Japanese foreign exchange bank and central bank respectively, the relations between the Central Bank of China and the Bank of China were not clearly defined and consequently their functions were overlapped. The Central Bank of China took part in foreign exchange businesses. As we will see in the following part of this section, BOC maintained its right to issue notes.

The second mission was to control the flows of foreign exchange inside the bank. Midland Bank had been BOC's correspondent bank in London; the head office and each branch held their accounts at Midland Bank. London agency consolidated their accounts and took control of all the transactions in foreign exchange to invest any surplus funds to profitable projects. The third but not least important task was to contribute to China's trade expansion, especially by Chinese traders. Partly because of the lack of international network, modern Chinese banks had not been successful in engaging in financing foreign trade. BOC's London agency was expected to improve the bank's capacity.

During the first three years from the reorganization in 1928, the exchange rate of Chinese yuan in terms of the gold-standard currencies was declining. BOC found it difficult to build the fund in foreign exchange, as the value of foreign exchange rose. At the same time, the risk in changes of the exchange rate was large. In case the exchange rate rose after BOC changed yuan to foreign currencies, the bank should suffer a loss out of the transaction. In order to hedge such risks, BOC purchased Chinese government bonds raised abroad. At that time, because of the political instability in China, the Chinese government bonds were heavily discounted on the market. BOC purchased them at their bottom price. If their market value went up, the bank could not only make profits but also write off the risks of the exchange rate fluctuations. In 1929, BOC bought the gold-standard bonds worth of 700,000 pound (796.8 yuan), in 1930, 1.5 million pound (2440 yuan), and 1931, 1.6 million pound (3,219.4 yuan). They are deposited at BOC London agency to be used as collateral for the correspondence bank (Zhongguo yinhang zonghang 1990, pp. 1563–1564).

In January 1930, Zhang Jiaao left Europe for the USA. After a month's stay in USA and Canada, he was on board at Vancouver to Japan, and arrived in Tokyo in early February. Zhang's goal was to found BOC's branch in Osaka. Recalling his plan, he noted, "BOC had the correspondence relationship with Daiichi Bank in Tokyo. Because China and Japan had had very close business relationships, BOC requested the Japanese government to approve of its branch in Japan. However, the Japanese government did not agree, pointing out that any central bank should not have a branch abroad. BOC was just reorganized as a special bank for foreign exchange, similar to Yokohama Specie Bank in Japan. Thus, it is the right time for us to negotiate with Japanese government. With Yokohama Specie Bank's mediation, as soon as possible I hope to secure Ministry of Finance's approval of BOC's branch in Osaka, along with the office in Kobe. In Osaka, we will rent the former site of Kawaguchi branch of Mitsui Bank to prepare the opening in fall of 1930 (Zhongguo yinhang zonghang 1990, p. 1557)." Ministry of Finance once declined BOC's request, declaring it could not approve of any new branches in the middle of severe economic depression. Yokohama Specie Bank, however, continued to negotiate with Ministry of Finance for BOC. On January 31, 1931, the BOC's application was finally approved, followed by the issuance of business permit in February.

On September 1, 1931, BOC Osaka branch was established. It was targeting Sino-Japanese trade done by overseas Chinese residing in the western part of Japan. According to BOC's analysis, the key Sino-Japanese trade goods such as cotton yarn, cotton cloth, sea products, medicine, and machines for exports and seeds, hemp, leather, and wool for imports were mostly handled in the large group of overseas Chinese in Kobe and Osaka. The cultural and language barriers made them difficult to receive loans from Japanese banks with favorable conditions. Japanese banks catered only for the major trade centers in China but not for their hinterlands, which overseas Chinese found inconvenient. Aiming to meet those services not provided by its Japanese counterparts, BOC Osaka branch expected not only to attract overseas Chinese customers but also to boost China's exports to Japan (Zhongguo yinhang zonghang 1990, p. 1557). BOC used the deposit of their branches in Manchuria for Osaka branch's fund in yen. It also purchased yen notes issued by Bank of Chosen and then changed them into Japanese bill to raise floating funds (Zhongguo yinhang zonghang 1990, p. 1564).

Upon his return from abroad in March 1930, Zhang Jiaao established the foreign department at home. The foreign department was designated to control all the businesses related to foreign exchange that the head office and the branches inside and outside of the country would engage in. The fund of the department worth 5 million yuan was allocated by BOC Shanghai branch with its assets abroad, bonds and bills. At each end of accounting period, the foreign department should pay interests to the head office, while any branches which made deposits at the department would receive interest according to the market rate (Zhongguo yinhang hangshi bianji weiyuanhui 1995, p. 205). Already in the first year of its establishment, the foreign department recorded profits. Since then, without any loss over the years, its profit reached 400,000 yuan in 1935, and then 460,000 yuan in 1936 which was the third most profitable section, only second to the branches in Shanghai and Hong Kong, the leading financial centers in China (Zhongguo yinhang hangshi bianji weiyuanhui 1995, p. 206).

The amount of import and export bills handled by BOC was less than 3 million in 1927. After the reorganization in 1928, the amount exceeded 40 million in 1930, the year of the establishment of the foreign department. The business further developed with the amount of 4.3 million, and four times increased in 1934. The discount of export bill, in particular, was most important; in the share of profit out of trade bill business, the export bill shared 68% in 1931, then reached 91.67% in 1936. To promote the usage of import and export bill particularly among newly established trade companies, BOC offered favorable interest rates or served as mediator between Chinese exporters and foreign import firms (Zhongguo yinhang hangshi bianji weiyuanhui 1995, pp. 210, 213). Although those extra services could contribute to the expansion of BOC's international banking, the sudden and significant development in the middle of the economic crisis in the 1930s requires attention the macro-circumstances in which BOC operated.

The sudden and massive rise in the price of silver caused by heavy US purchases just as suddenly raised the price of silver abroad. The impact of the American Silver Purchase Act on China soon became obvious. In the first five months of 1934, silver imports and exports were minimal. But in June silver valued at 12,936 yuan was exported. Compared with a net 14,122 yuan's worth of silver exports in for all of 1933, this total for a single month was highly unusual. The outward movement of silver became even more conspicuous after June, rising to 24,308 yuan's worth in July, 79,094 in August, and 48,140 in September. One reason for these vast increases in silver exports was that foreign individuals and corporations began transferring their funds abroad as they rushed to take their profits from their businesses in China out of the country. Wealthy Chinese also purchased foreign exchange and remitted their surplus funds abroad (Shiroyama 2008, pp. 153–156).

The exchange banks, mostly foreign banks, found themselves in an oversold position for foreign exchange. Unable to find enough cover for these sales, the banks had to export their silver holdings to London or New York (Shiroyama 2008, pp. 156–157). The shock of the massive drain of silver changed the landscape of Shanghai financial market. By the end of 1935, the silver stocks held by foreign banks in Shanghai significantly decreased (Table 1).

Not only in terms of the amount of possessed silver, the presence of the foreign banks decreased during the depression, as Cheng Linsun estimates (Table 2).

Table 1 Silver stocks in Shanghai banks, 1926–35 (in 000 yuan)

Year	Chinese banks		Foreign banks		Amount index	%
	Amount	%	Amount	%		
1926	73,474	49.9	73,859	50.1	147,333	100
1927	79,342	55.8	62,907	54.2	142,249	96.5
1928	102,760	59.9	68,784	40.1	171,544	116.4
1929	144,196	60.0	96,064	40.0	240,260	163.1
1930	166,293	63.5	95,663	36.5	261,965	177.8
1931	179,305	67.4	86,883	32.6	266,188	180.7
1932	253,289	57.8	185,050	42.2	438,339	297.5
1933	271,786	49.6	275,660	50.4	547,446	371.5
1934	280,325	83.7	54,672	16.3	334,997	227.3
1935	239,443	86.9	36,159	13.1	275,602	187.1

Source Zhongwai shangye jinrong huibian 4, no. 7 (July 1937): 50

Table 2 Ratio of capital strength in the Chinese financial market 1936

Name/items	Chinse modern banks		Foreign banks		Qianzhuang (Traditional local banks)		Total
	Amount	%	Amount	%	Amount	%	Amount
Notes	1,946.7	87	284.7	13	0.0	0	2231
Deposits	4,551.3	79	511.2	9	673.6	12	5736
Capital	402.7	67	113.7	19	84.2	14	600.6
Total	6,900.7	81	909.6	11	757.8	9	8568

Source Cheng 2003, p. 78

In the meantime, BOC was reorganized again to cope with the financial and monetary crisis in 1934–35. In March 1935, the government added 15 million yuan to its previous holdings of 5 million yuan in the Bank of China, raising its the bank's capital to 40 million yuan and dividing it into 4 million shares, half of which were bond subscriptions issued by the government and the remaining half held by private shareholders. When the Chinese government declared the currency reform on November 3, 1935, BOC became one of the government banks to issue legal tender as well as to keep the exchange rate in the target set by the government. BOC was furnished with the reserve for note issuance in foreign exchange and gold secured through the government's sale of silver to the US government. While keeping the exchange rate in the target declared in the currency reform, BOC acquired the dominant position in the foreign exchange business with their opening of branches in New York and in Singapore in 1936. New York was the center for the sale of China's silver to the US government. The government banks kept the accounts in gold and in

US dollar at the Federal Reserve Bank. Singapore, on the other hand, was the basis for a million of overseas Chinese in Malaya.

3 Overseas Chinese Remittances and Their Agencies

BOC in Singapore regarded overseas Chinese remittances crucial to foreign exchange business. In fact, remittances were critical in the China's international balance of payment.

3.1 Overseas Chinese and Their Remittances

In the 1933, C. F. Remer, a professor at the University of Michigan and an associate of the Institute of Pacific Relation asked: "How does China pay for what it gets from the world outside of China? … China, we are frequently told, is different. This is true and the differences between China and the West have been shown to be important. But China is not different in any such sense as enables her to receive an excess of imports year by year without paying for it (Remer 1933, pp. 149–150)." Remer's question was widely shared by foreigners such as H. B. Morse, the secretary of the statistical bureau of Chinese Maritime Customs, Japanese bankers, and Chinese government officials and scholars. Analyzing the Chinese balance of payments, Remer himself concluded that the most important sources of money to pay for the excess imports were remittances from Overseas Chinese, followed by foreign loans and other miscellaneous items. Other scholars agree with Remer on the key role of Overseas Chinese remittances and foreign loans in financing China's international trade, although their calculations of each item's value differ. According to the estimates of China's international balance of payments, the ratio of the amount of total remittances in comparison with that of to the trade deficit was 168% in 1903, 98% in 1909, 39% in 1912, 47% in 1913, 41% in 1920–23, and 105% in 1928. Possibly because of the 1911 revolution, the amount of remittances was dropped in 1912 and 1913, and this lowered the ratio in terms of the trade deficit. Still, remittances were obviously crucial in China's international balance of payments.

Long before the industrial age that began in the nineteenth century, Chinese merchants participating in long-distance maritime trade sent their colleagues, agents, and clan members to set up bases along their trade routes. In addition to the "trader" pattern of migration, in the mid-nineteenth century another type of migration, labor migration, surged.[2] One group of workers was recruited by Chinese merchants investing in plantations and tin mines in colonial Southeast Asia. Another large group of people headed to North America and Australia, first to find gold, then to

[2]For the periodization and the categorization of overseas Chinese, see Gungwu 1991, pp. 3–21.

build railroads, or to Cuba, Peru, and the British West Indies to work on the plantations. Most importantly, some of the so-called old guests among the Chinese turned into professional recruiters of new migrants, known as "new guests." In the context of the relationship between the recruiter and the new migrant, the central issue was how to finance emigration from the homeland to the destination country (Bank of Taiwan 1914, pp. 7–20).

To deal with the movement of laborers and the necessary funds for their travel, migrant institutions became more important than traditional family–friend linkages, including third parties engaging in the migrant business for profit. The costs of travel from the home village to the final destination were paid by the recruiter who would charge the emigrant two or three times the cost. If the recruiter had insufficient funds to cover the expenses for the whole journey, inn operators, shipping brokers, or the employers of Chinese workers in Southeast Asia forwarded money to the recruiter. During their journeys, financial support was indispensable for migrant workers; 75% of migrant workers depended completely, and 15% partially, on borrowed money.

The rise of professional recruiters linking home and abroad was the important change in the mode of migration after the mid-nineteenth century. The financial aspect of the migration network was an important determinant of the formation of private remittance agencies.

3.2 Evolution of Remittance Agencies

Serving as guarantors of emigrants' debts at home and provided credit for travel expenses, recruiters, traveling to Southeast Asia every three or four months, had to collect money from emigrants. At the same time, they offered the service to bring money back home (Bank of Taiwan 1914, pp. 71–73). This method of transfer through recruiter–couriers was very common, but some of them were unreliable and embezzled remittance funds. To improve the reliability of courier services as well as to handle larger amounts of money, some recruiters and inns for migrants developed into organizations for remittance services around the 1870s (Department of Foreign Affairs 1943, p. 178). Although they were known by different names, their main operations were the transfer of money and the delivery of letters (Bank of Taiwan 1914, p. 69).

Several were based in China and set up branches or agents in Southeast Asia. For example, the Tian Yi private postal exchange in Amoy, Fujian province, had branches or agents in Manila, Saigon, Penang, Singapore, Medan, Batavia, Bandung, Semarang, and Rangoon. It also had branches in rural areas, the largest of which were in Chuanzhou, Changzhou, Tongan, Anxi, Jinmen, Anhai, and Huian. However, the majority of private postal agencies were based in Southeast Asia. Compared to their China-based counterparts, they were generally small and did not have their own branches in China. Instead, they set up agent contracts with China-based private postal exchanges. Their contracts could be divided into three kinds: (i) joint ventures in which profits were combined and shared annually; (ii) all expenses in China were paid by a Chinese agent who collected 10–17 yuan for every 1,000 yuan of remittances received from Southeast Asia; and (iii) the Southeast Asian private postal exchange paid the Chinese agent for its service and also paid a commission of 2–4 yuan for every 1000 yuan of remittances received. The agents working under the first arrangement were usually joint equity investors or family businesses, but most agents operated under the second and third arrangements. A 1930 survey found 515 private postal exchanges operating throughout Southeast Asia: 210 in Malaya, Borneo, and Burma; 160 in the Dutch East Indies; 80 in Thailand; 50 in Indo-china; and 15 in the Philippines. Another survey in 1935 reported that there were 185 private postal exchanges in Fujianprovince: 153 in Amoyand 32 in other cities. Guangdong province had 93:66 in Swatou and 27 elsewhere (Department of Foreign Affairs 1943, pp. 179–180).

For migrant workers bound for the West, the counterparts to the private post office in Southeast Asia were the *jinshanzhuang*, or Gold Mountain firms. Gold Mountain firms started as trading companies based in Hong Kong around the 1850s. They had close links to Chinese businesses abroad, which were often run by kinsmen or people from the same village. Responding to demands from overseas Chinese for Chinese goods, including Chinese books and magazines, herbal medicines, fruits, and groceries, managers of Gold Mountain firms took orders and arranged for their shipment. They subsequently entered overseas Chinese remittance businesses, partly taking the place of couriers. To reach the places without banks and post offices in the late nineteenth and the early twentieth centuries, Gold Mountain firms established connections with Chinatown businesses around the world and with local agencies in Guangdong province, where the majority of migrants to the West originated. By 1922, there were 116 Gold Mountain firms based in Hong Kong dealing with North American firms. By 1930, the number had more than doubled to 290 (Hsu 2000, pp. 34–36).

3.3 Flows of Money and Information

The private exchange post dealt with both the transfer of money and the delivery of letters. These two operations were closely related to each other. Figure 1 shows the chart of flows of money and letters.

For example, if a sender in Southeast Asia wished to remit money to his hometown in the hinterland of Amoy, Fujian province, he first paid for the remittance in local currency at the private postal exchange nearby. The payment was then dispatched with a letter from the sender to a private postal exchange office in China. Although the letter might contain a personal message, the most important information was about amount of payment. The envelope bore the sender's name and address and the amount of the remittance for verification purposes.

Once the private postal exchange in Southeast Asia accumulated several hundreds or thousands of letters, they sent them to their corresponding agencies in China. At the same time, they transferred money, mainly through foreign banks. Because their

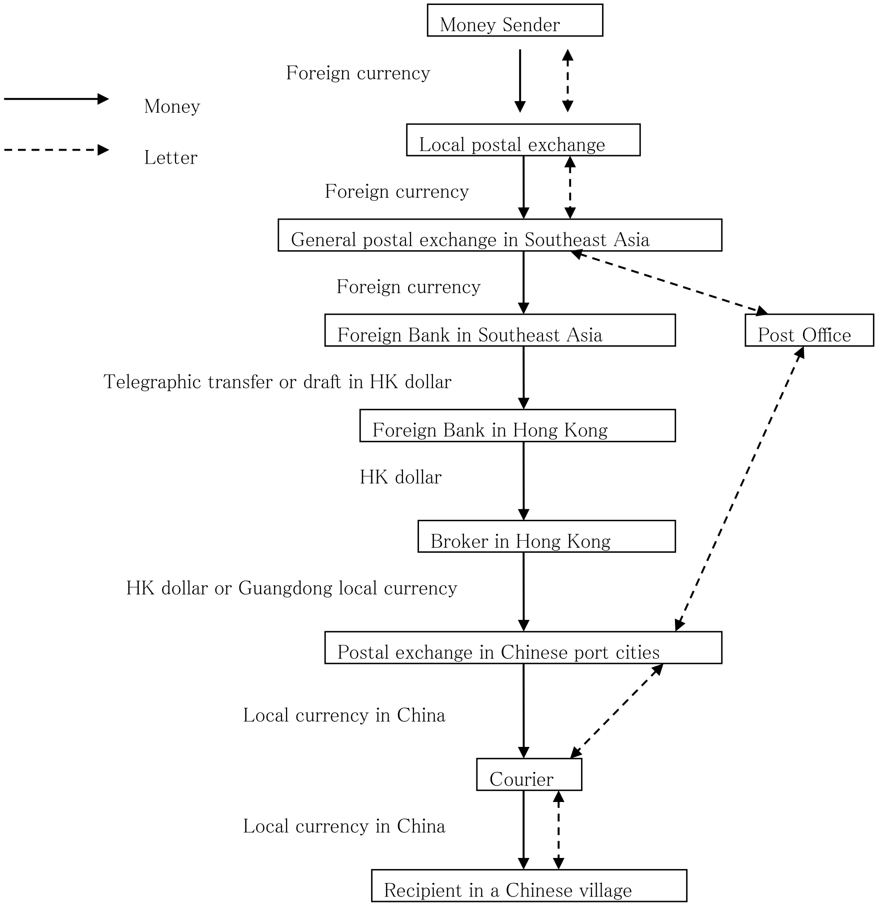

Fig. 1 Chart of flows of money and letters between Southeast Asia and China

counterparts in China lacked adequate funds to cash the receiving orders, they had to purchase remittance drafts from foreign banks. In addition, by sending money via Hong Kong, they could profit from an exchange rate that was more advantageous to them by sending remittances directly to Amoy, where the demand for Southeast Asian remittance drafts was much lower. In that case, they sent remittances by telegraphic transfer to their Hong Kong brokers, and got the brokers to issue a Hong Kong draft to their correspondents in China. The postal exchange in China would sell the draft to foreign banks or local Chinese-style banks in Amoy to get Chinese yuan to pay to the remittance recipients (Bank of Taiwan 1914, pp. 72–73).

When private postal exchanges in China received notices of remittance transfer from Southeast Asia, they recorded them and arranged for local couriers to come over when the ship arrived. When the orders arrived, the postal exchanges checked the orders against their records and dispensed monies to their destinations, sending their couriers to rural villages and mountainous regions. When their missions were completed, they asked the recipients to sign or stamp the receipts for return to the senders. The private postal exchange then collected all receipts, arranged them to match the remittance orders, recorded their delivery and then sent them as "return orders" to Southeast Asia. When the private postal exchanges in Southeast Asia received the return orders, they checked them against their records and then stamped them "return" before sending them back to the senders of the remittances (Bank of Taiwan 1914, p. 72).

Sending money and letters home through Gold Mountain firms was done in a similar way to the method used by private postal exchanges in Southeast Asia. However, without organized local agencies on their side, Chinese remittance senders tended to deal with American financial institutions. In the USA, Chinese workers bought a cashier's check for the required amount, wrote a letter with instructions about destination and recipient, and sent both via registered mail to the Gold Mountain firm of choice in Hong Kong. Alternatively, the worker could avoid dealing with American banks by asking a trusted proprietor to send the money and instructions. Once a number of such remittances had accumulated, the proprietor would purchase a single cashier's check for the total to be sent with individual instructions. When the money arrived in Hong Kong, the accountant of the Gold Mountain firm cashed the check at a bank, exchanged it for silver or Hong Kong dollars, calculated the amounts to be sent to their destinations, which were mainly in Guangdong, and arranged for local couriers to deliver monies to the recipients (Hsu 2000, p. 37).

3.4 Risks and Opportunities from Exchange Rate Fluctuations

The private postal agency was not a large-scale enterprise; the staff included a superintendent who supervised the operation of the exchange and negotiated with financiers, a manager in charge of accounting, a liaison officer dealing with the dispatch of correspondence and remittance letters, and clerks and apprentices who recorded correspondence and undertook sundry duties (Zheng 1942, p. 299). The fee that they charged for remittance service was not high. Remittances below 20 yuan cost five percent of the transferred amount. The rate dropped as the amount increased, to as low as one percent for transfers of 500 yuan (Bank of Taiwan 1914, p. 69).

After all, the remittance fee was not their main source of profit. The private postal exchanges derived their profit by exploiting the exchange rate imposed on senders. Because China was on the silver standard within the gold-standard dominated international currency system, the Chinese yuan fluctuated with the price of silver in terms of gold-standard currencies. Chinese sojourners and migrant workers in gold-standard countries could benefit from a weak Chinese yuan, but remittance agencies never failed to make profits out of their transactions.

Table 3 Profits from exchange rates

Remittance sum (Spanish dollar)	Exchange rate (Indonesian guilder)	Profits (Indonesia guilder)
2	140.00	0.43
5	130.00	0.57
10	127.00	0.85
50	123.00	2.25
100	121.50	3.00

Source Bank of Taiwan (1914), p. 71, Table 4.1

According to the accounting book of the private postal exchange in Batavia, Indonesia, it made profits from exchange rate manipulation as follows. For example, one day, the Hong Kong Shanghai Bank announced an exchange rate between the Spanish dollar in Amoy and the Indonesian guilder of 118.50 guilders per 100 Spanish dollars. The private postal exchange set an advantageous rate to earn profits from its transactions (Table 3).

By securing profits from small-amount remittances by using a higher exchange rate and by earning larger profits from large-amount remittances, the private postal exchange profited from exchange rate manipulation (Bank of Taiwan 1914, pp. 70–71).

In addition to making profits from exchange rates, the private postal exchanges obtained several benefits from the remittance business. They could use received remittance money as funds for trading before dispatching the money to China. Under certain circumstances, transfers were made in the form of goods, which could either be consumed by the receiver or sold for cash. When letter offices operated simultaneously as trading houses, the money to be remitted could be used to buy export goods for sale in China, the proceeds of which would then be dispatched to the remitter's intended receiver. Rice was the most demanded commodity, trade in which was sometimes widely used for transferring remittances to Shantou, Guangdong (Department of Foreign Affairs 1943, pp. 69–70).

Remittances also enabled the private postal exchange to gain extra profit from interest. In order to attract overseas Chinese remittances, foreign banks in Vietnam and Thailand provided special financial services to private postal exchanges. These services included providing ordinary loans, supplying credit for remittance orders during the period of transport from Southeast Asia to banks in Hong Kong (about 10 days), and absorbing handling fees and canceling disbursement in Hong Kong if the sender failed to produce the remittance funds by the time the remittance orders had arrived (Bank of Taiwan 1914, p. 75).

The private postal exchange was the domain of professional financial dealers. By offering grassroots-level services and by using the high-speed financial transaction facilities provided by foreign banks, they became the main channel through which overseas Chinese sent money home. At the same time, possibly because customers' choices were limited to those private postal exchanges with which they had local ties, the exchanges could profit from manipulating exchange rates. As the place where foreign currencies were converted to local currencies in China, Hong Kong was the most important meeting point. Even for remittances bound for overseas Chinese homelands in southern China, money was sent via Hong Kong.

4 The Rise of Chinese International Banks in Southern China

Hong Kong was the center to handle the flows of goods, money, and people between south China and other parts of the world, mainly South East Asia and the Americas. However, the foreign banks in Hong Kong did not make direct transactions with Chinese citizens who made up over 90% of the colony's population in the early twentieth century. The local clients were limited to the big Chinese firms and large depositors. The businesses that ordinary Chinese engaged in were not large enough to attract the interests of foreign banks. At those levels, the chief source of credit were Chinese native banks, called *yinhao* in Hong Kong.

4.1 Chinese Native Banks in Hong Kong

Yinhao offered multiple services including, change of money, discount of bills, loans and deposits. As we have seen in the previous section, changing Hong Kong dollar to local currencies in South China was crucial for overseas Chinese remittances. Local currencies in China were very much complicated without a single national currency issued by a central bank. The different types of money, namely silver dollars (coin), subsidiary coins, copper coins, sycee, and notes issued by the variety of authorities (central and local governments, foreign and domestic private institutions) concurrently circulated.[3] The foreign banks did not cope with the complexity, but the Chinese native banks did. The native banks purchased from traders and remittance agencies the bills in Hong Kong dollar or in foreign currencies for local currencies, while selling the bills in turn to the foreign banks. To meet the orders from various parts of the world, the native banks deal with a number of currencies of different origins and types, as Table 4 based on Bank of Taiwan's research in 1914 indicates (Table 4).

In the early 1890s, the number of the native banks in Hong Kong was around 30, but it increased to 50–60 in 1919 (Hisasue 2012, pp. 42, 45). Some of them extended loans as well as accepted deposits with interests. Most of loans were on personal credit without collateral, and concluded in a month or two. Deposits, on the other hand, were mostly on current account with 0.5% interest per month. The

[3]As for the Chinese currency system in the early twentieth century, see National Government of the Republic of China 1929, pp. 47–56; Kann 1927, chaps 2,5,6, and 17.

Table 4 Currencies taken by native banks, July 4, 1914

Notes	Coins		
	Silver	Subsidiary	Gold
Straits notes Manila notes Java notes Saigon notes Saigon $1 notes Japanese yen Indian rupees Thai baht notes Guangdong notes	Singapore silver Manila silver Vietnamese silver Hong Kong silver Old Manila silver Japanese silver Guangdong silver Old Mexican silver New Mexican silver Chopped Japanese and Hong Kong silver Chopped Guangdong silver Chopped Old Mexican silver Chopped silver pieces Miscellaneous silver coins American Silver Dutch 2.50 guilder Indian silver Thai silver	Hong Kong 50-cent silver Guangdong 50-cent silver Guangdong 20-cent silver Guangdong 10-cent silver Hong Kong 20-cent silver Hong Kong 10-cent silver Singapore 10-cent silver Singapore 10-cent silver New Manila small silver Old Manila small silver Vietnamese small silver	Pure thin piece of gold British gold pound American gold Japanese gold Old Manila gold Javanese gold

Source Bank of Taiwan 1914, p. 102

short-cycle turnover of transactions and the heavy reliance of personal relationships were the significant features shared by the native banks. They had been run according to a partnership system (*hegu*) traditionally taken by many commercial enterprises in China, in which relatives and friends invested in a business assumed unlimited liability and divided up the profits.[4] The proprietor's reputation was critical to make up for the its narrow capital base. People made deposits based upon the social fame of the owners. And though the interest rates were quite very high, so was the risk depositors faced. Similarly, personal relationship was the basis for extending loans frequently made against no security except a counterpart's reputation. As a whole, to minimize the risk embedded in the management, the native banks restricted their businesses among very close circle, as a consequent, the money market was left inflexible (Sinn 1994, p. 5).

[4]The most of partnership-system enterprises were small in terms of their capital amount capitalization. Some businesses, however, could raise operating funds much larger than their own capital because of the credits given to the shareholders bearing unlimited liability to in the enterprises. Thus, the partnership system was prevalent among commercial houses and traditional banks. Tadashi Negishi, a Japanese expert of on the Chinese economy in the early twentieth- century Japan, provided a detailed research on account of *hegu* in Tōa kenkyūjo 1943.

4.2 Bank of Canton

The new financial needs developed in the 1910s which native banks were unable to meet. Chinese businessmen climbed up the social and economic stratum of Hong Kong, while the wealthy families from south China fled to the colony to escape from the chaos caused by the collapse of Qing dynasty in 1912. They expanded their businesses as well as came to invest in industrial ventures which required long-term loans. The needs of bills of exchange and letters of credit also increased (Sinn 1994, pp. 4–5).

Targeting those new demands, Bank of Canton (BCA), the first Chinese-owned bank in Hong Kong, was opened in 1912 (Hisasue 2012, pp. 100–106). The bank was formed by Chinese returning from San Francisco. San Francisco was one of the major destinations of overseas Chinese where Gold Mountain firms catered for their needs to send money home. The number of Gold Mountain firms increased from 30 in the 1870s, 100 in the late nineteenth century, and to 280 in the 1920s. Although they had initially used the foreign banks for the trans-pacific transactions, Canton Bank of San Francisco was registered at California in 1907 as the first Chinese-owned bank. The bank developed rapidly by meeting the strong demands of the overseas Chinese for financial services. However, because the Bank Law of the USA prohibited the banks registered at the states from engaging in business abroad, it found it difficult to send money to Guangdong. Founding a bank without any financial relationship was the que to solve this managerial problem.

One of the founders of Canton Bank of San Francisco, Lu Pengshan, native of Xiangshan county, Guangdong province, accumulated the expertise of banking through his careers International Banking Corporation and Russo Asiatic Bank. He went to Hong Kong in 1909 to set up the new bank with his fellow Guangdong people, mainly from the four counties neighboring Xiangshan, namely Taishan, Xinning, Enping, and Kaiping. In November 1911, Canton Bank of San Francisco issued the prospectus for subscription of shares claimed:

> Hong Kong is the center of trade where many Chinese traders base their businesses. However, it is very much regretful the financial profits are drained to foreigners because we have not founded our own financial institutions. Canton Bank of San Francisco has taken back the profits by serving for fellow country people, and thus has made a significant progress for several years since its foundation. Hong Kong has not taken this good opportunity. We call for compatriots' participation in opening of a bank which will realize smooth transactions and make profits for them.

According to the list of 53 promotors, 5 were from Canton Bank of San Francisco, 20 from Gold Mountain firms, 13 traders, 3 native bankers, 1 from an insurance company, 2 compradors, 1 from construction company, 5 owners of department stores, 3 were not known. As four of the department store owners also ran Gold Mountain firm in Australia, the majority of the promotors engaged in that business. BCA were registered in Hong Kong by the end of 1911 with the paid-up capital of 2 million HK dollar as of January 1912. On February 12, 1912, Hong Kong BCA Ltd. was officially opened.

Modeled on foreign exchange banks, BCA constructed the broad network of branches and agencies (Hisasue 2012, pp. 111–116). By February 1913, it founded the branch in Guangzhou as well as set up agencies in London, Hawaii, and Shanghai. The branches in Shanghai and Bangkok were added by the end of 1919 along with the agents in New York, Honolulu, Yokohama, Manila, Singapore, Batavia, Surabaya, Rangoon, Colombo, Calcutta, and Bombay. In 1921, the branch in New York was opened. On the other hand, BCA in the 1910s to the early 1920 was not so much interested in penetrating in China (Hisasue 2012, pp. 111–112). Except for Guangzhou in the founders' home province Guangdong, its branch existed only in Shanghai. Southern provinces of China imported the agricultural product such as soy beans and wheat from northern China and rice from central China via Shanghai. Those contracts were mostly settled in Hong Kong, where the bills were discounted more easily than in other cities in south China. Besides those north–south trades, Shanghai branch catered for the businessmen from Guangdong in Shanghai. The Guangdong natives constituted the important positions in the Shanghai business circle, and their number was considerable; the large department stores, Wing On and Sincere's, and Wing On textile factory were only to name a few.

The foreign exchange business was the major source of profits for the bank. At the same time, according to the balance sheet of 1918, the bank engaged in deposits and loans. The amount of loans with collateral (422,751.54 HK dollar) shared 50.8% of the total assets, while the sum of savings and current account deposits (468,810.42 HK dollar) consisted 56.4% of liabilities, thus the ratio between deposits and loans was 90.2%. Without the details about the composition of businesses in the balance sheet, it is not clear how much businesses related to deposits and loans contributed to the bank's profits. Facing the tight competitions with the native banks for customers, the modern banks like BCA were forced to offer high interest rates for deposits while lend money with low interest rates, which might have made those businesses less profitable.

Seven years after its foundation in 1919, BCA had developed to the leading bank in Hong Kong, as Bank of Taiwan, for example, regarded it creditworthy as the foreign banks. Accordingly, in 1923, BCA became the member of the Clearing House of Hong Kong. Except for BCA, only two more Chinese banks were permitted to this financial institution exclusive to the foreign banks; one was Hong Kong branch of BOC, and the other was Bank of East Asia.

4.3 Bank of East Asia

Bank of East Asia (BEA) was founded in Hong Kong in 1919. While BCA was initiated by overseas Chinese returning from the USA, the nine local businessmen, including native bankers, traders, and industrialists, started BEA. Among them, Kan Tong-po who served as permanent chief manager of the bank until his death in 1963, Li Tse-fong, manager from 1919 to 1953, and his brother Li Koon-chun were catalysts for the modern financial institution in Hong Kong, the financial and trade center in the region. Kan has the family background of banking. His father, Kan Tien-hing was the compradore of the Hong Kong branch of Yokohama Specie Bank. Kan Tong-po himself, after studying at Queen's Collage, worked for Yokohama Specie Bank in Kobe, then moved to Kobe Branch of the International Banking Corporation. Back in Hong Kong, he founded the native bank, Tak Shun in 1916 before he pursued the plan of a modern bank. Li Tse-fong, the younger son of Li Shek-pang, joined Kan. Li Shek-pan had wide-ranging businesses in Hong Kong and French Indo-China, including rice trade, shipping, native banking, and real estate. It was Shek-pan who initially had been interested in a modern bank. Because of his father's sudden death in 1916, Li Tse-fong inherited the firm Wo Fat Sing which was operating five steamers as well as his father's plan to set up a modern bank. While his brother engaged in management of BEA, the elder son, Li Koon-chun sat at the board of the bank to provide the expertise on trade and businesses in South East Asia (Sinn 1994, pp. 7–15).

Armed with the knowledge of modern banking, local business connections, and trade networks with abroad, they emphasized their capability to compete with the foreign banks which had dominated Hong Kong and China market. The prospectus noted:

> [w]e plan to gather large capital, and use good methods to organize a real bank which is reliable and steady. It will work according to the social customs of our nation and also refer to the spirit of foreign banking. By taking what is best, we may be sure of success, and the commerce of our country is bound to advance.

BEA was registered as a limited company under the Hong Kong Companies Ordinance on November 14, 1918. The bank was equipped with an authorized capital of 2 million Hong Kong dollar divided into 20,000 shares at 100 Hong Kong dollar per share. This was much larger than the capital of native banks which averaged between 200,000 and 300,000 Hong Kong dollars. The nine founders who was to be made permanent directors each subscribed 200,000 Hong Kong dollars and the rest were floated in the open market. By 1921, five more permanent directors were added. They had vast commercial interests in China, Japan, Indonesia, French Indo–China, and other countries of Asia. Significantly, three of them, namely Fung Ping-shan, Ng Chang-luk, and Wont Yun-tong owned the largest south-north trade houses, called *Nam Pak Hong*. As *Nam Pak Hong* literally means south–north house in Cantonese, it at first dealt in the trade between China and Southeast Asia in which Hong Kong served as the entrapôt, but later widened its sphere of operation to include USAand Japan. Dealing with a wide range of commodities including medicine, rice, soya beans, rubber, silk, tung oil, and dried foodstuff, *Nam Pak Hong* traders constituted the core of Chinese business circle in Hong Kong. The directors' and the board members' commercial and business contacts abroad were reflected in the bank's expanding networks of branches and agencies. By early 1921, BEA had the branches in Shanghai, Guangzhou, Saigon and Cholon as well as the agencies in Tianjin, Hankou, Tokyo, Singapore, Penang, Batavia, Surabaya, London, New York, San Francisco, Honolulu, Yokohama, Kobe, Nagasaki, Manila, Smarang, Bombay, and

Calcutta. After several years, the agencies in Taipei, Batavia, Manila, Melbourne, Paris, Beijing, San Francisco, Seattle, and Sydney were added.

The development of BEA was backed with the geographical expansion. According to the annual general meeting in February 1929, the total deposits on December 31, 1928 were about 10.5 million HK dollar, as against about 4 million HK dollars in 1919, the year of its foundation. Out of the total profit of 6.8 million that had been made during the decade, after deducting the amount for dividend and bonus (4.6 million HK dollar), transfer for general reserve (1.5 million HK dollar), and depreciation (300,000 HK dollar), the bank still made 400,000 HK dollar of undivided profit. Particularly in light of the political strife in China and unrest in Hong Kong in the 1920s, the success of BEA was impressive. In 1922, the seamen's strike hit Hong Kong. It started with a walkout ordered by the Seamen's Union in January 13 after demands for higher wages were ignored. As the strike spread to other workers, shipping and other businesses were all paralyzed for almost three months. The even larger scale of strike broke out in 1925. On May 30, the police in the International Settlement of Shanghai opened fire on a street demonstration, then killed nine Chinese and wounded a number of more. This incident provoked protest and demonstrations in many parts of China. In Guangzhou, the labor leaders called for a general strike in Hong Kong and South China against British imperialism, to which seamen and men from other industries in Hong Kong answered. As the social tensions heightened, the banks faced the heavy withdrawals and hoarding. BEA managed to stand against the panic, even by displaying the silver dollars in the hall of the bank. Against all those difficulties, BEA developed as the leading bank in the financial market in Hong Kong by the end of 1920s.

4.4 The Turbulence in the 1930s and Its Aftermath

Hong Kong had been on the silver standard since 1873. As China had been the major counterpart of trade for Hong Kong, the colony chose the silver standard to stabilize the exchange rate for the China trade. Although the Great Depression hit the rest of the world, both Hong Kong and China escaped its major impacts because of the sharp drop in the world price of silver which brought down the exchange rate of the silver-standard currencies. However, once a number of countries left the gold standard and depreciated their currencies after 1931, the price of silver rose, followed by the exchange rate. For Hong Kong, the state of Chinese economy was crucial as China was the major source of imports and the destination of exports. When China could not buy from or sell to the rest of the world, Hong Kong's entrepôt trade inevitably suffered. Owing to the decline in the number of emigrants as well as the drop in the amount of individual remittances, total remittances from settlers in Asia was also decreasing (Chinese Maritime Customs 1934, p. 62). The same trend could be seen in remittances from America. The drop in the amount of remittances continued until the economy was recovering after the currency reform in 1935 (Table 5).

Table 5 Overseas Chinese remittances 1931–1937

Year	Mount (in yuan)
1931	421,200,000
1932	323,500,000
1933	305,700,000
1934	250,000,000
1935	316,000,000
1936	320,000,000
1937	450,000,00

Source Department of Foreign Affairs 1943, p. 148

Handling trade finances and extending loans to businesses, the Chinese international banks were put under the severe stress after 1931. The first to go down was the Ho Hong Bank established in Singapore in 1917. Its Hong Kong Branch had been actively dealing the foreign exchange. In 1931, when Britain went off the gold standard, Singapore followed suit, and the Ho Hong was caught in an overbought Sterling position. As the exchange rate between the Straits dollar and the Chinese and Hong Kong currencies went up, the Ho Hong, with large deposits in Hong Kong dollars was left uncovered. The trouble of the Hong Kong Branch was severe enough to damage the business of the enterprise. In fact, BOC which had been looking for its basis in Singapore was interested in taking over Ho Hong as its branch (Zhongguo yinhang zonghang 1990, pp. 1324–1326.). The Ho Hong managed to survive only by getting merged with two other Singapore banks to form the Oversea Chinese Banking Corporation in 1932.

The crisis became deeper in 1935. In January 1935, the Ka Wah Bank founded in Guangzhou in 1923 was forced to close. When the Guangzhou branch was hit with its over-extended mortgages, the Head Office in Hong Kong could not meet withdrawals from depositors. The credit crisis spread to BCA in September. The bank had cut its tie with San Francisco Canton Bank in 1924, when the ownership of the latter was transferred to an American Bank, Oriental Commercial Bank. Since then, the bank had sought to expand their businesses inland China without much success to beat competition with domestic financial institutions. The assets, deposits, and profits which had made a significant development between 1919 and 1926 got stagnant during the following 7 years between 1926 and 1933 (Table 6).

During the years from 1931 to 1933, Guangzhou and Hong Kong experienced real estate booms. The decrease in agricultural prices and the insecurity rural areas caused the outflow of funds to the urban centers, but the outlet for investment was limited by the sluggish trade. The excessive money went to the real estate market with speculative purposes. When the market went down turn quickly in the early 1933, the loans made for the real estate lost their liquidities. BCA also engaged in the real estate businesses which made its management fragile. In 1933, the amount of profits largely declined, but the reserves had vanished. When more than 10 million HK dollar was withdrawn in a few days, the bank could not bear the pressure. On September 4,

Table 6 Assets, deposits, and profits of Bank of Canton in 1919, 1926, 1933 (HK dollar)

	1919	1926	1933
Assets	12,068,584.99	38,295,665.49	32,170,492.30
Capital	4,102,600.00	11,000,000.00	11,000,000.00
Paid-up Capital	2,860,882.05	8,664,200.00	8,665,600.00
Reserves	400,000.00	700,000.00	0
Deposits	7,883,144.38	21,957,185.51	21,666,063.64
Profits	2,188.81	1,233,598.26	127,987.20

Source Hisasue 2012, p. 125

BCA, head office and its branches in Shanghai, Guangzhou, Hankou, and Bangkok stopped operation. BCA was reorganized in April 1936 with Song Ziwen as the chairman of the new board of directors. Song was one of the most influential persons both in Shanghai financial market and Nanjing Nationalist government. Serving as the manager of BOC until 1933, Song had been keenly aware of the importance of Hong Kong as the gateway linking China with the rest of the world. A new capital of 8 million HK dollar was raised, 2 million for new shareholders including Song, high-ranking officials of Nationalist government like Wu Tiecheng, the mayor of Shanghai, Sun Ke, son of Sun Yasen and the president of Legislative Yuan, 4.5 million HK dollar for creditor of BCA, and 1.5 million for old shareholders. BCA had been the oldest Chinese modern bank in Hong Kong. Under the new ownership headed by Song Ziwen, although the name was same, the new bank assumed a new identity (Hisasue 2012, pp. 122–131).

As the bank run followed by the National Commercial and Savings Bank, the crowd of depositors rushed to BEA in Hong Kong and in Shanghai, to which they countered with their readiness to meet any request (Sinn 1994, pp. 52–57). BEA managed to survive the banking crisis, but the upturn of the business came only after the currency reform in November 1935. When China left the silver-standard and moved to the managed currency system on November 4, Hong Kong followed suit. In December 1935, a currency ordinance was passed, declaring that the note-issuing banks, namely the Hong Kong and Shanghai Banking Corporation, the Chartered Bank and the Mercantile Bank of India, were to surrender all silver held against the notes to the government. The government in turn paid the banks certificates of indebtedness against which the banks issued notes as unlimited legal tender. The new Hong Kong currency was defined as a "Sterling managed currency". The policy aimed to stabilize the Hong Kong exchange rates against Shanghai so that trade with China would be conducted smoothly. Off the instability of exchange, Hong Kong's trade with China was deemed to prosper. The recovery of Chinese economy after its own currency reform was another encouraging sign. BEA's performance did improve in 1935, offering a bonus dividend of 1%. As we know, the optimism did not last for long. Japan invaded China in 1937, and then occupied Hong Kong for more than four years after attacking the colony without warning in December 1941. The end of the Pacific War was followed by the civil war in China, and the foundation of People's

Republic of China in 1949. It is significant that having bored all those military and political upheavals, BEA continues to be one of the leading banks in Hong Kong. Investigating BEA during the war-time years and the post-war period is beyond the scope of this chapter. Still, the resilience of BEA merits special attention in terms of its inherited capacity to operate across territorial and state boundaries in the dynamic age of the early twentieth century.

5 Conclusion

The people in the coastal provinces of China had engaged in trades and migration abroad, long before modern international banks came into existence. Traditionally, couriers, middlemen, and ship masters assisted them sending money home, while provided other services necessary for them to move to and settle down at the destinations. The mid-nineteenth century was the watershed of the flow of people, goods, and money in Asia. As the scale of migration became much larger, the amount of money sent home increased. The remittance agencies such as private postal houses played the key role to make those international transactions. Partly dependent upon the branch networks that the foreign banks offered, they maintained the flow of money and information from the places that migrants resided to the rural villages in China.

Except for the businesses related to remittances, the foreign banks had been dominant with the foreign exchange businesses conducted at the treaty ports in China. The financial landscape came to change after World War I. The retreat of foreign economic interests during the war and the post-war rise of nationalism urged Chinese businessmen to challenge the foreign dominance of the exchange business. In Shanghai, the modern Chinese banks like SCSB and BOC tried to catch up their foreign counterparts. In Hong Kong, the southern entrepôt between China and abroad, BCA and BEA were founded to specifically cater for Chinese businessmen by combining modern international banking, local business knowledge, and network abroad.

The sudden rise of the exchange rate caused by the change in the world silver price critically undermined the monetary and banking systems of China and Hong Kong. Coping with the crisis, the foreign banks in Shanghai was forced to send large amount of silver abroad. Consequently, the position of foreign banks vis a vis the modern Chinese banks were weakened. After the currency reform in 1935, BOC as one of the four government banks to monitor the new monetary system acquired a dominant position in the foreign exchange business. Burdened with the speculative transactions in the real estate market in the early 1930s, BCA could not counter the large-amount withdrawals during September bank run in Hong Kong in 1935. Although under the same name, the bank was reorganized by the new ownership headed by the former general manager of BOC, Song Ziwen in 1936. On the other hand, having survived the crisis in 1935, BEA expected the bright business prospect which would be suspended by the eruption of Sino-Japanese war in 1937.

The development of the Chinese international banks during the inter-war period might be too short-lived to properly evaluate its achievements. Still, against the background of the long-term evolution of Chinese financial institutions from the pre-treaty port era, they made significant contributions to link mass of Chinese people abroad with their homes as well as to facilitate not only long-distance trade with Europe and Americas but also regional trade in Asia. When the strong demand for international banking existed in the Chinese societies inside and outside of China, Chinese traders and businessmen had meticulously met them with the techniques and instruments that they had historically cultivated.

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