British Banknotes in China:
The Bund and Beyond, 1864-1937

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Except where otherwise acknowledged, 
this thesis is based on my own original research

[Signature]
Abstract

This thesis surveys the cumulative impact that British overseas bank notes made on China’s economy before the outbreak of the Pacific War in 1937 with particular emphasis on Shanghai. Drawing on recently declassified and largely unexplored bank archive materials, the thesis traces out instructive linkages between the changing political climate during the late-Imperial and Republican eras, and banknote circulation volumes.

The two leading British banks in the region serve as skeletal case studies: the Chartered Bank of India Australia and China, and the Hongkong and Shanghai Banking Corporation. By de-merging the Hong Kong note issue of these two banks from notes issued in China proper and denominated in local units of account, core chapters uncover important monetary aspects of Shanghai, the treaty-port and hinterland economies.

Since previous estimates of the pervasiveness of foreign banknote issuance in China proper are shown to contain considerable upward bias, the thesis argues that the significance of this monetary phenomenon should be sought in qualitative rather than quantitative terms. The thesis explains the monetary setting in which foreign banks operated in Shanghai and the other treaty-ports, and the ways in which foreign bank presence reshaped Chinese economic discourse and popular perceptions of fiduciary money. It then demonstrates that for the British banks note issuance was a highly remunerative financial instrument that helped minimise branch dependence on metropolitan capital injections, on the one hand, and on China’s intractable monetary system, on the other.

Critical findings indicate that Chinese demand for British bank notes initially derived from the enfeeblement of central authority in the late 19th century. It is against this backdrop that British banking became a key feature of Shanghai’s financial ‘cityscape’. The May Thirtieth Movement (1925) marked a momentous downturn in the demand for British bank notes, as student fervour combined with a newly assertive urban elite to lambaste any business smacking of ‘British imperialism’.

The thesis concludes the Chinese Nationalist Party effectively recaptured the momentum gained in 1925 in order to force British and other foreign banks to downsize and, ultimately, renounce their note issue privileges in the course of the Nanjing decade (1927-1937).
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Any errors that remain in the text are exclusively mine.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>BAT</td>
<td>British American Tobacco Co.</td>
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<tr>
<td>CBIAC</td>
<td>Chartered Bank of India Australia and China</td>
</tr>
<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
</tr>
<tr>
<td>CMBILC</td>
<td>Chartered Mercantile Bank of India, London and China</td>
</tr>
<tr>
<td>DAB</td>
<td>Deutsch-Asiatische Bank</td>
</tr>
<tr>
<td>EIC</td>
<td>East India Company</td>
</tr>
<tr>
<td>GBP</td>
<td>British Pound Sterling</td>
</tr>
<tr>
<td>GMD</td>
<td>Chinese Nationalist Party [Guomindang]</td>
</tr>
<tr>
<td>History</td>
<td>History of the Hongkong and Shanghai Banking Corporation (King, 1987)</td>
</tr>
<tr>
<td>HKS</td>
<td>Hong Kong Dollar</td>
</tr>
<tr>
<td>HSBC</td>
<td>Hongkong and Shanghai Banking Corporation</td>
</tr>
<tr>
<td>IBC</td>
<td>Imperial Bank of China</td>
</tr>
<tr>
<td>MBI</td>
<td>Mercantile Bank of India</td>
</tr>
<tr>
<td>MCFC</td>
<td>Municipalité de la Concession Française de Shanghai</td>
</tr>
<tr>
<td>OBC</td>
<td>Oriental Banking Corporation</td>
</tr>
<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>SS</td>
<td>Straits Settlements Dollar</td>
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<tr>
<td>SMC</td>
<td>Shanghai Municipal Council</td>
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<tr>
<td>Wusa</td>
<td>The May Thirtieth Movement, 1925 [Wusa yundong]</td>
</tr>
<tr>
<td>Wusi</td>
<td>The May Fourth Movement, 1919 [Wusi yundong]</td>
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<tr>
<td>YSB</td>
<td>Yokohama Specie Bank</td>
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Glossary of Key Terminology

Capital Market refers to the market for stocks or bonds offered either by companies or the government as means of raising long-term funds. The term is not to be confused with the 'money market', which refers to trade in liquid assets like bank drafts or foreign currency.

Debased Currency refers to coins whose metallic content has been improperly alloyed, while its external features and nominal value markers retain intact.

Dollars [$] refers to the silver unit of account — known in Chinese as yuan — that was customary throughout the trading ports of East Asia in the pre-war era, unless otherwise stated. In Shanghai, commodities priced in dollar units were usually paid for in ubiquitous Mexican silver dollar [Mex$] coins. Similarly, paper money denominated in dollar units was converted into Mex$ coins, although other foreign and Chinese silver coins were also current.

Fiat Currency refers to paper money that is not convertible into precious metal. It is accepted as medium of payment in business transactions solely by virtue of a government decree ('Legal Tender').

Fiduciary Currency refers to convertible paper money denominated in precious metal units, but only partly backed by a metallic or bond reserve. Strictly speaking, the fiduciary issue of a bank is that part of its note issue that is not covered by gold or silver assets.

Free Banking refers to the theory advocating free issue of currency by multiple commercial banks, and the abolition of central banks as an enduring remedy for inflation.

Reserve Ratio refers to government regulation stipulating a minimum ratio of precious metal and/or securities to be held by banks in their vaults against the total amount of their customer deposits and the notes that they issue.

Taels [Tls.] refers to disparate silver units of account, known collectively in Chinese as liang and often rendered as 'ounce' by Westerners. The Shanghai variant of the tael [SH Tls.] was roughly equivalent to 1.4 silver dollars, but the exchange rate fluctuated in accordance with the supply of Mex$ coins. Commodities priced in SH Tls. were usually paid for in sycee bullion. In 1933, the GMD government phased out all tael units.

Shroff is a term that was used by British bankers throughout Asia to describe indigenous currency experts. Shroffs were hired to detect debased coinage, ascertain the quality of paid-in bullion or guarantee draft and notes issued by domestic financial institutions.

Seigniorage refers the difference between the nominal value of coins or notes and their actual cost of production. This difference embodies profits accruing to the seigneur or ruler who monopolises the issue of currency in any given polity.
Chapter 1
Introduction

The fine bast between the bark and the wood of the tree is stripped off. Then it is crumbled and pounded and flattened out with the aid of glue into sheets like sheets of cotton paper, which are all black. When made, they are cut up into rectangles of various size, longer than they are broad...

Of this money the Khan has such a quantity made that with it he could buy all the treasure in the world. With this currency he orders all payments to be made throughout every province and kingdom and region of his empire. And no one dares refuse it on pain of losing his life. And I assure you that all the peoples and populations who are subject to his rule are perfectly willing to accept these papers in payment, since wherever they go they pay in the same currency, whether for goods or for pearls or precious stones or gold or silver. With these pieces of paper they can buy anything and pay for nothing. And I can tell you that the papers that reckon as ten bezants do not weigh one...

Marco Polo¹

This thesis will address an intriguing puzzle underlying Chinese monetary history. While, following Marco Polo, European observers have always recognised China as the ‘native birthplace’ of paper currency in the 11th century,² it was primarily British overseas bank practices in China that catalysed recourse to this means of payment during the mid-19th century.

¹ See Latham trans. [1987], The Travels of Marco Polo, pp. 147-148; cf. Yule trans. [1903], The Book of Ser Marco Polo, vol. I, pp. 423-430. N.B.: Square brackets point to reprints or translations, while round brackets will henceforth indicate year of original publication.
² See, e.g., Hall (1921), p. 18; Morse [1967], pp. 154-158.
The following chapters explain what lay behind the growing popularity of British overseas bank notes in late-Imperial China (1865-1911), and how British banknote issuance unfolded during the early Republican era (1912-1927) and the Nanjing Decade (1927-1937). The coverage ends just before the Japanese invasion of China (1937), a momentous event that saw Britain’s presence in East Asia radically modified, and spelt the end for British bank eminence in the Chinese economy.

This introduction places British overseas banknote issuance against the backdrop of China’s own experimentation with fiduciary currency from about the 7th century (1.1, 1.2). Sections 1.3 to 1.4 weave the storyline of British banking in Asia into the broader literature on China’s economy before the outbreak of the Pacific War. Then, Section 1.6 foreshadows the foci of discussion, and explains the choice of methodology in the chapters to come.

1.1 On the History of Paper Money

Some of the earliest precursors of Chinese fiduciary currency date back to the heyday of the Tang dynasty (617-907 CE). A case in point is the appearance of the Tang guifang or ‘counting houses’ where, for a small service charge, merchants could deposit liquid funds in order to protect them from fire or theft, and draft checks to a third party against these deposits whenever necessary. The proprietors of these early financial institutions are believed to have devised call loan schemes resourced on their clients’ deposits in order to increase house turnover. By the early 10th century, however, the guifang had become associated with dubious speculators, who habitually debased coins deposits for quick gains, or turned the establishments they owned into gambling dens.

The monetary use of paper resurfaced as a result of the variegated occurrence of base metals in interregional trade after the collapse of the Tang and the ensuing political disunion of the Five Dynasties (907-960). Because almost all of the contending overlords at the time attempted to withhold copper from flowing into neighbouring regions, their kingdoms — Southern Han, Min, Wu Yue, Southern Tang, Chu, Later Tang, Later Shu — were wont to cast heavily-debased lead, iron or even clay-pot coins for domestic purposes. These coins were, of course, of very little intrinsic value, and ipso facto the first step toward ridding Chinese currency of its metallic anchorage.

As the newly-proclaimed Song dynasty armies were asserting their authority in Sichuan at the end of the 10th century, the Later Shu cumbersome form of iron currency could not be adequately replaced with the new dynastic copper standard mainly due to the unrealistic official exchange rate proclaimed by the authorities. Consequently, the heavy Sichuanese iron coins were deposited in bulk in return for promissory notes that had since been issued and regulated by sixteen of the wealthiest families in the region. Critically, note regulation was taken over by officials once the Song had firmly asserted its authority in the Southwest.

During the re-establishment of political unity in China in the 10th–11th centuries a whole new gamut of credit instruments spread in other parts of China too; there was, for example, an arrangement dubbed she 錢 whereby buyers would issue wholesale vendors a one-month promissory note (qiyue 契約) made payable after the resale of goods. The circulation of these privately-issued promissory notes (known interchangeably as tiezi 貼子, huizi 會子, jiaozhi 交子 or guanzi 關子) prepared the ground in which Sichuanese iron-denominated notes could take root.

This expanding credit economy had been part and parcel of what scholars termed ‘China’s medieval economic revolution’ during the Northern and Southern Song dynasties (960-1127, 1127-1279). Based in Kaifeng before 1127, the Song government demonstrated unparalleled interest in economic reform. Momentous advancements in metallurgy, weaponry, print and maritime navigation defined much of this era. The velocity and quantity of both fiduciary and metallic money flows rose, to the extent that silver bullion was required as high-denomination means of payment. For the first time in China’s history, commercial tax began to be levied in silver rather than copper coins or grain.

Yet, because the use of silver was largely confined to merchants and moneylenders, it circulated in urban centres where the inflow of bullion from overseas was significant. Paper money, on the other hand, was common medium in both small and big transactions. Copper coinage was limited to retail transactions. Song notes were denominated in base metals —

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7 During much of the preceding Tang era, payment of silver was common in the Lingnan area, but otherwise quite restricted to ceremonial purposes. It was very rarely levied in land tax. See Kato [1970], vol. I, p. 47-82.
first iron and then copper. Peasants, who contributed the bulk of the tax revenue, were largely outside the realms of this credit economy. This eventually meant that, whereas the Southern Song intake of bullion via overland and maritime trade increased, the output of its domestic silver mines was in proportional decline.8

The demand for copper coinage in the vast agricultural sector put severe pressures on the state-controlled mining industry. The relatively high costs of maintaining copper hearths, as opposed to the low seigniorage revenue that the government could extract from low-denomination coinage, often resulted in prolonged periods of 'coin famine' (*qianhuang* 錢糧). These chronic shortfalls propelled the renowned reformer Wang Anshi (1021-1086) to work vigorously for the pooling of metallurgic know-how to the extent that Imperial mines and foundries eventually managed to double their output, extracting 9,000 tons of copper and churning out as many as 5 million bronze coin strings annually.9

The turning point came in 1127, as the Song retreated south in the face of Xixia and Jurchen invasions. Now based in Hangzhou, the Southern Song bureaucracy was divided by the question of spiralling military expenditure. Hawkish officials were calling to recover China's territorial integrity, while doves sought to maintain the status-quo with the nomadic people of the Northern steppe lands and avoid a fiscal crisis. In 1135, the Court had tried to introduce unbacked notes in frontier areas in order to strike a balance between the two camps. However, the new notes were rejected by merchants and provincial administrators, to the extent that by 1160 convertibility to specie had to be restored.10 Overall, the Song experimented first with fiduciary notes (partly backed by metal reserve) and then with fiat notes (unbacked). Both betokened a departure from custom, whose significance in the wider context of global monetary progression cannot be overstated.

Intermittent coin famines continued in the 13th and 14th century as a consequence of monetisation in other parts of East Asia and Southeast Asia, where Chinese bronze coins became popular. Silver, on the other hand, was trickling into China in ever-growing quantities from both East and West along the principal trade routes. Faced with a narrowing of the metallic money base, the Mongol Yuan dynasty, which completed its occupation of

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9 Von Glahn (1996), pp. 48-50; Qi Xia (1987), vol. II, pp. 557-565; ‘coin famine’ or *qianhuang* continued to haunt policymakers in late-Imperial China. For an illuminating description of how mid-Qing administrators perceived the flight of copper coins – see for example Dunstan (1996).
China from Song loyalists in 1279, decided to abandon coin casting altogether. It was to rely instead on nominally-convertible paper notes as means of generating revenue.  

Before long, Yuan officials could not resist the temptation of surfeit note issues, thereby unleashing repeated waves of inflation and consistently undermining popular trust in paper currency. The Court’s proclivity toward the use of note issuance as cheap means of generating fiscal revenue became a feature of Imperial policy, which surfaced time and again. Inevitably, commoners had to resort to imported silver bullion as the sole reliable store of value, forcing the Imperial bureaucracy to adapt it finances along the same lines. After the 14th century, government note issuance — as moot policy measure — was subject to deep-seated suspicion from both within the Imperial bureaucracy and in popular discourse.

Full resumption of copper coin casting by the Ming dynasty (1368-1644) occurred only in 1522. By then, the Chinese economy had been drawing an immense overflow of Japanese silver. But unlike Tokugawa Japan, Chinese late-Imperial governments did not attempt to mine and coin silver themselves before the late 19th century.

New World bullion came on stream in the 16th century, carried on board Spanish galleons, and trickling into China via Manila. The Pacific route of the galleon trade came under Spanish hegemony by virtue of a papal decree to divide oceanic exploration into a Portuguese sphere from the Cape of Good Hope to Melaka [Malacca], and a Castilian sphere from the Philippines eastward. It is roughly estimated that around 5 million Pieces-of-Eight (later known as Carolus dollars) — commensurate with 120 tons of silver — found their way to Asia during the early 17th century.

Ming taxation reforms played a decisive role in entrenching silver bullion in the late-Imperial economy. The *lijia* 里甲 launched by Founding Emperor Hongwu and Jiajing’s ‘Single Whip’ (*yi tiao bianfa* 一條鞭法) had, over the course of Ming rule, formalised a

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12 The Ming launched a rearguard attempt to revive note issuance between 1629-1644, but met with resounding failure. Large-scale note issuance was subsequently abandoned by Imperial governments until the late Qing. See Von Glahn (1996), pp. 197-206; cf. Tullock (1958) and Chen Chau-nan et al (1995), pp. 273-279.
gradual commutation of tax-in-kind and many forms of corvée labour into a silver-denominated land-tax that was levied by an increasingly decentralised provincial apparatus.\textsuperscript{15}

In economic debates at the Court, the evocation of silver further eclipsed that of paper currency during the early and middle Qing reign (1644-1911).\textsuperscript{16} The monetary standard during that period was bi-metallic: silver bullion was used as the most common medium of large transactions, foreign trade and tax collection, while round copper coins continued to serve as a daily medium of exchange in retail. Moreover, since the central government preferred bullion to its own, often-debased copper coins, silver weights evolved into the most important units of account in China.\textsuperscript{17}

The net inflow of silver into China continued, albeit unevenly, until the breakdown of the Canton [Guangzhou] foreign trade system in the 1830s, and subsequent British incursions into China proper. In the 1840s, imports of Bengali opium finally succeeded in eroding China’s longstanding trade surplus with the West. British trading houses faced enormous difficulty in selling other manufactured products in China: opium and bullion were coveted more than anything else that the British could offer in return for tea and silk. Consequently, opium became the great equaliser in Indo-Chinese trade flows at a time when both economies had been on a silver standard, and there is quite a large corpus of circumstantial evidence to suggest that, at least during the 1840s-1850s, it was radically reshaping Eurasian bullion flows.\textsuperscript{18}

\textsuperscript{15} Huang Ray (1974), pp. 36-43, 118-122; the effects of the lijia reform have also been explained in detail by Yamane (1984); Nishijima Sadao has aptly described how rapacious land taxes in 15th-century Songjiang spawned a thriving domestic cotton industry, which further expanded the monetisation of silver. See Nishijima (1984), pp. 57-59.

\textsuperscript{16} The Ming tried to reintroduce paper money in the 14th century but popular rejection of government notes at that stage was too difficult to overcome. Ming officials occasionally revived the idea of paper money in various memorials to the Throne thereafter, but a new issue was not implemented. See Peng Xinwei (1958), pp. 429-433, 506-509; Yang Lien-shang (1952), pp. 67-68.

\textsuperscript{17} Wang Yeh-chien (1973), pp. 59-61; for an overview of bimetallism in the late-Imperial era – see Kann (1927).

\textsuperscript{18} On the overriding importance of opium for British trading houses and early British financial institutions in China – see for example Checkland (1953), passim.
By the time British traders began selling Indian opium in South China, Britain’s metropolitan economy had already been unrecognisably transformed by paper money. In England and Wales it totalled approximately 15 million pounds — or 56% of the money stock — as early as 1698.19

Monetary progress in Europe was, however, slow. The recovery of mints during the Carolingian era after a protracted post-Roman hiatus paved the way for a significant increase in continental trade. Concomitantly, the emergence of Florentine banking in the 12th century dispelled many of the papal interdictions on interest and capital accumulation. Widening trade links then provided the impetus for a distinctly European phenomenon: the rise of joint-stock enterprise.20 Joint-stock companies were emerging alongside guilds in Europe from the 16th century. Many had received a Royal Charter, which helped them monopolise the most lucrative commodities in foreign trade. At the same time, the transferability and scope of share ownership consolidated the companies’ purchasing power and institutionalised their independence of the monarchy. Politically, this new balance of power was reflected in, for example, the way the British Parliament was displacing the Crown as the key agent of fiscal policy, and in the legalistic articulation of private property rights.

Papermaking, print technology and bills of exchange had spread far and wide across the continent in the 1500s, but Europe’s first government-endorsed banknotes appeared in Sweden only in 1661 (kreditivsedlar).21 Tellingly, banknote issuance was gaining momentum in the British Isles through the work of one of the most eminent joint-stock companies at the time; soon after it had been set up, the Bank of England (est.1694) aimed at expanding its note issue at the expense of private bank notes, but its monopoly of paper money in England was formalised only in 1844. Elsewhere in Continental Europe and Scotland, private banknotes proliferated well into the late 19th century.22

The relinquishment of government note issuance in China between the 17th and 19th centuries, and the complexities of her bi-metallic standard, can serve as a platform for a

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21 Heckscher (1954), pp. 91-92. There is some similarity between the circumstances in which banknotes had first emerged in China (Sichuan) and Sweden. The coinage of both economies had been based at the time on ‘lower-value’ metals, i.e. copper in Sweden (17th century) and iron in Sichuan (10th century).
comparative study of paper money as a harbinger of economic modernisation. For, as from the mid-19th century, it was largely European banks that introduced banknotes across Asia on a large scale.

1.2 Overseas Banknote Issuance

Family-owned or joint-stock banks issuing notes convertible to bullion and payable on demand were fairly common in Europe at the beginning of the 20th century. This phenomenon rapidly disappeared during the 1930s when central banks were taking charge of money supply across much of the Western world. In East Asia, the legacy of privately funded European banks entrusted with the supply of currency in colonies and dominions with varying degrees of official approbation continued in a few cases after World War II, and is still adhered to in Hong Kong SAR today. Such bank notes percolated in large numbers into the few interstitial domains than remained outside European metropolitan suzerainty, quite often passing at a premium against local metallic currencies. For example, around the 1900s, Hong Kong dollar banknotes were widely used in South China, while Straits Settlements dollar notes had already spread all over Peninsular Malaya.

Monetary links between European colonies and self-governing regions of East Asia were not limited to the inflow of colonial currencies like the Hong Kong or Straits Settlements dollar. One of the least known properties of early European joint-stock overseas banking is the fact that a considerable part of its note issue had been denominated in indigenous units of account and issued intra-regionally. This characteristic emerged as a tenet of overseas banking in the early 19th century, when private British banks were allowed to issue notes in some of the newly emancipated colonies of Latin America. Similar issues were

23 Although disparate Qing governments issued premodern (largely handwritten) notes on a small scale through 1661 and during the Taiping rebellion, this was but a faint echo of early Ming reliance on paper currency. Von Glahn’s account (1996) does not refer to these issue but Chinese scholarship normally does. See for example Zhongguo jindai zhibi shi (2001), p. 4.

24 Notable examples of countries, which retained private bank note issues in the early 20th century include Switzerland and Greece. Banknotes in Scotland are still issued by commercial banks. See Schuler (1992).


27 For currency substitution between local currency and HK$ in South China – see Li Taichu (1936), pp. 3-21; Schenk (2000), passim. Banknotes issued by the British Chartered Mercantile Bank in Malacca, which amounted to Straits Settlement $70,000 in 1882, were crucial for the survival of its branch there. These banknotes were commonly used in neighbouring Malay states – see Muirhead (1996), pp. 224-225.
subsequently introduced in other parts of the world where Western European banks could enjoy a comparatively free rein — East Asia, the Ottoman Empire, Ethiopia and for a limited time even in Siberia.\(^{28}\)

Deprived by the British Treasury of access to retail financial markets at home, British overseas banks tended to specialise geographically through different groups of founding investors who had firsthand knowledge of specific colonial economies and the respective commodity flows emanating therefrom.\(^{29}\) Although overseas banks could and did solicit deposits in London (and Edinburgh) in order to finance inbound bills before World War I, Treasury regulations prevented them from granting loans to clients domiciled in the UK. Until well into the 20th century, British saving, merchant and clearing banks found, on the other hand, sufficient outlets for growth in Britain’s rapidly expanding retail and industrial sectors, and kept foreign engagements on the backburner. Consequently, there was little competition between domestic and overseas banks. These two banking communities were far from coterminous in the City of London either in corporate structure or in managerial makeup. Youssef Cassis has, for example, estimated that landed aristocrats and politicians were twice as likely to be found on British overseas bank boards than on saving or clearing bank boards.\(^{30}\)

In the 1890s, British overseas banks spread over no less than 710 branches around the world, while London’s largest domestic clearing banks — e.g. Lloyd’s and Barclays — operated no branches outside Britain.\(^{31}\) However, British investors were inclined to consolidate a toehold in secure colonies, and banking was no different. Thus, the largest and longest-standing overseas banks in the mid-19th century were ones strictly associated with colonies and dominions: the Bank of Australasia (est. 1835) and the Union Bank of Australia (est. 1837). It was only when the growth potential in the Antipodes declined that

\(^{28}\) France’s predominant financial organ in East Asia, the Banque de L’Indochine, issued Ruble notes with Cyrillic script in Vladivostok between 1919-1920 – see Kolsky (1996), pp. 303-306; The Bank of Abyssinia, a subsidiary of the British-owned National Bank of Egypt, opened its first offices in Addis Ababa and Harare on 15 February 1906. It had pioneered banknotes in Ethiopia in 1915, and was subsequently nationalised by Haile Sellassie in 1931 – see Marcus (2002), p. 130-146; on the notes issued by the Franco-British owned Imperial Ottoman Bank – see Eldem (1998), pp. 75-110.


\(^{31}\) Jones (1990), pp. 33-34.
other investment groups shifted their attention to the Americas, India, Africa, Continental Europe and Greater China.

The fundamental restrictions on note issuance applicable to British banks in such disparate countries as Brazil, Greece and Mainland China was standardised by the same set of guidelines, dating back to 1830s, that had been devised for the dominions. Drawn up by the British Treasury, these guidelines were commonly referred to as colonial currency regulations.\(^{32}\) They effectively restricted each bank’s geographical branch deployment, and ensured the subordination of business practices to colonial authorities. Adherence to these regulations was a prerequisite that competing British groups, bent on investment in far-flung corners of the Empire, had to meet before applying for a Royal Charter that would bestow on them limited-liability status.\(^{33}\) From the perspective of investors, this was a trade-off between acknowledging Treasury supervision and receiving an incentive from the Crown in the form of limited liability to develop banking in remote territories. Notably, the legal precepts of limited liability were introduced to the British domestic financial sector only in 1858. But after it had been introduced domestically, the provision of Royal Charters became a rarity.\(^{34}\)

These features of early British overseas banks contrasted sharply with economic circumstances in Continental Europe. Most 19th-century French, Dutch and German colonial banks had sprung up from initiatives jointly undertaken by well-established domestic banks and the state rather than by \textit{ad hoc} groups of investors, thus mirroring a different pattern of economic development than in Britain. As a whole, European overseas banks like the Banque de L’Indochine or the Deutsch-Asiatische Bank worked more closely with French and German diplomatic missions around the world, and benefited from broader note issue prerogatives and less stringent reserve requirements than those set out by the British Treasury.\(^{35}\)

Because of its rich natural resources and underdeveloped domestic financial sector, Latin America was one the most attractive regions for European banking ventures in the mid-19th century. British banks took the lead, claiming between a quarter to a third of all banking

\(^{32}\) On the evolution of British legislation as regards overseas note issues by private banks – see Chalmers (1893), pp. 27-32; cf. Nishimura (2003), part 1, p. 8.


\(^{34}\) Jones (1990), p. 40.

deposits in Argentina and Brazil at that period. Consequently, the continent retained one of the biggest amounts of overseas bank notes in circulation outside Asia (see Figure 1.1). But a decade later, political unrest cast a pall on financial stability in the region, as foreign banks were progressively ejected from the monetary domain to make way for fledgling national banks. In 1904, for example, the London and River Plate Bank — then the largest British bank in Latin America — was forced to substantially reduce its large bank note issue in Uruguay in favour of the new Banco de la República.

Figure 1.1
British Overseas Bank Note Circulation, 1890-1938

![Graph showing British Overseas Bank Note Circulation, 1890-1938](image)

Source: Adapted from Jones (1993), pp. 39, 117, 215; the figure for Egypt (Africa) corresponds exclusively with the issue of the privately owned Anglo-Egyptian bank – Jones' data do not seem to cover issues by British-owned state banks like the National Bank of Egypt and the Ottoman Bank. Nor do they differentiate between overseas bank note issuance in colonial possessions and in foreign countries.

36 Jones (1990), p. 36.
During the early 20th century, British overseas banks were also stripped of their prerogatives as suppliers of colonial currency in Australasia, Canada, Africa, and other parts of the British Empire, while in Asia the governments of Japan and Siam severely restricted the latitude of foreign banks operating on their soil. Thus, by the 1910s overseas bank notes became a distinct Chinese treaty-port phenomenon, countenanced by the retention of European extra-territorial rights and denominated in either the traditional silver tael or local variations of Mexican dollar units.

1.3 British Overseas Banking in China

The first British banks to operate in East Asia during the 1850s had been set up in British India only a decade earlier. When these banks began issuing notes in East Asia, the notion of fiduciary money — let alone central banking — was still relatively novel in Europe. Like private banks of issue in the metropolis, India-based banks were subject to stringent British Treasury guidelines aimed at protecting uninformed note bearers. The transition in English banking from unlimited to limited liability, which reshaped the regulatory underpinning of London as a global financial centre, came into its own only in the late 1870s, and was least influential in overseas banking. The practice of banknote issuance overseas remained, therefore, predicated on a 19th-century contingency, as central banking was sweeping across Europe in the early 20th century.

India-based British exchange banks were usually known as 'Anglo-Indian'. These banks had been set up in order to cash in on the break-up of the Canton trade system and of the East India Company monopoly on intra-Asian trade and finance in 1833. They discounted exchange bills and converted currencies, but their legal status was vague, and their ties with London’s money markets and colonial policymakers remained tenuous. In 1851, a new era began when the Oriental Bank (set up as the Bank of Western India in

38 The Siamese government decided to replace HSBC, CBIAC and Banque de L’Indochine notes circulating in Bangkok with an issue of its own in 1902 – see Ingram (1971), pp. 150-155. Between 1889-1894 HSBC’s circulation in Yokohama and Kobe slumped from the yen equivalent of HK$ 86,517 to HK$ 5,675. Japan’s share of the Bank’s total circulation volume thereby dropped from approximately 1.5% to 0.057% – see King (1987), vol. I, p. 39, 485.

39 Because of their lead position in issuing exchange bills, the larger British trading houses — headed by Jardine, Matheson & Co. — tried to resist the establishment of Anglo-Indian banks in Guangzhou [Canton] and Shanghai. When the transition to specialised banking appeared unstoppable, Jardine, Matheson & Co. worked in conjunction with other merchant groups to set up their own bank, i.e. The Hongkong and Shanghai Banking Corporation (est. 1865). See Checkland (1953), passim.
1843, and established in Shanghai by 1847) gained a Royal Charter, which enabled it to transfer its headquarters to London, expand its exchange business across Australasia and Africa, and issue banknotes in a large number of British colonies and dependencies. Two years later, the Chartered Bank of India Australia and China (CBIAC) gained a similar concession and swiftly established branches throughout East and Southeast Asia. In 1865, a portentous Hong Kong Colonial Ordinance gave much the same powers to a bank jointly established by the Colony’s richest merchants — the Hongkong and Shanghai Banking Corporation [HSBC].

This dissertation will analyse the characteristics of the London-based CBIAC and the Hong Kong-based HSBC as banks of issue in China proper until 1937. In doing so, it will propose analogies between British overseas banking in China and South America (see Chapter 2.5), and will recount why most Anglo-Indian banks did not survive into the 20th century (see Chapter 3.1). British banks, whose entry into the Chinese market occurred in the course of the late 19th or early 20th century, will only be cursorily addressed because none could attain a lasting prerogative to issue notes, or challenge the supremacy of CBIAC and HSBC in East Asia. During the early 20th century, European, American and Japanese banks also entered the Chinese market. All these entrants — however divergent their backgrounds — cleared each other’s banknotes in China; the role that non-British foreign banks played vis-à-vis their Chinese clientele and their British counterparts will be briefly explored in Chapter 2.6.

Together, foreign banks were responsible for a very large inventory of paper currency issued in China and its environs between 1865-1935. This is perhaps why the first observers to take keen interest in this pre-war monetary phenomenon have been numismatists. Notably, the number of catalogues documenting the different specimens of foreign banknotes in China exceeds by far the number of studies authored by Chinese economic historians or academics generally interested in free banking. The dissertation seeks to correct this imbalance by addressing aspects that go well beyond specifically

40 Late British entrants into the Chinese market include the P&O Banking Corp., the Eastern Bank, the National Bank of India and the National Bank of China. On the history of these banks in China — see Tyson (1963), pp. 32-33, 92, 108; Jones (1993), pp. 77-78, 158-159; Orbell and Turton (2001), pp. 203-204, 425.  
numismatic interests, e.g. the circulation volumes, profitability and regulation of overseas banknote issuance.

Foreign bank notes in China embodied influential novel design and advanced print technology, but they were certainly not the only common means of payment current in and around the treaty-ports that the European Powers had carved up between themselves along the China coast during 1842-1914. Neither did they constitute the only form of paper money during that period. That China did not have a uniform currency during the Ming and Qing is a well-known historic fact. The most ubiquitous form of high-denomination money in the late-Imperial era was sycee — i.e. silver bullion weighing approximately 50-tael with local variations in fineness — or Spanish-American silver dollars; silver bullion as well as traditional copper coinage were widespread all over China well into the 1930s. From the mid-19th century, successive Chinese governments and warlord regimes had issued various types of paper currency, often imitating foreign designs, but with an uneven record of success. In addition, private moneyscript, remittance drafts, military wage coupons, product certificates and even, later, underground CCP paper currency were circulating in different parts of the country concurrently. Yet, owing to the extraterritorial setting in which foreign firms operated in the treaty-ports, foreign banknotes acquired a contentious characteristic. Unlike Chinese currency, foreign banknote issuance was not regulated in situ by any sovereign government. While often denominated in traditional Chinese units of account, foreign banknotes were issued at will by private financial institutions operating on Chinese soil yet entirely impervious to Chinese authority.

This aspect of overseas banknote issuance was — and still is — roundly condemned by scholars in the PRC, who allege that the absence of Chinese government regulation enabled foreign banks of issue to divert much-needed capital from the domestic economy; it is the mainspring of a fairly extensive literature that, in its scope and pertinence, comes second

42 The word ‘sycee’ is a derivative of the Cantonese pronunciation for ‘pure silk’ (细丝), the equivalent in Mandarin being dingzi (銅子) or yuanbao (元寶). In South China, good quality silver bullion was thought to possess a shiny veneer reminiscent of silk.

43 For an overview of Qing and early-Republican monetary fragmentation, and of how novel foreign banknote designs were emulated by Chinese financial institutions — see Zhongguo jindai zhibi shi (2001), passim; Hsu Yih-tzong (1997) and (1998), passim; Zhang Zhizhong (1997), passim; on ‘underground’ Communist currency — see for example Wu Ping (1994); Ding Guoliang and Zhang Yuncai (1993).
only to that published by numismatists. This dissertation will address the allegations levelled by Chinese scholars, and determine whether they hold up to close scrutiny or are purely doctrinaire, insofar as the British banks in China were concerned.

As China ventured into economic modernity in the early 20th century, silver dollars, subsidiary coins and banknotes gradually superseded her bi-metallic standard. But for the next three decades, the leaders of the newly-established Republic were unable to enforce complete monetary unification on breakaway provinces. A turnaround appeared in sight only in late 1935, when an invigorated Nationalist administration took China’s currency off the silver standard and proclaimed her first fiat currency in the modern era, the *fabi* 法幣.

In the lead-up to the *fabi* reform, a large number of regional banks still operated outside of central government reach. More often than not, these banks had been amenable to warlords, who did not hesitate to milk the local civilian population through what economists call 'inflation tax'. In other words, many regional banks serviced warlord debt with proceeds obtained from banknote disbursement. Still others strove to fend off the unification thrust of the GMD [a.k.a. *Guomindang*, Kuomintang or KMT] government by maintaining a stable regional currency and securing banknote convertibility to bullion.

The GMD government intention to trim its large budget deficit lay behind the anticipated success of the 1935 move off silver. A modest budget surplus, a higher degree of monetary integration and some improvement in productivity were achieved during 1936-7. However, in the final analysis unchecked military spending incurred by anti-Communist campaigns and the impending war with Japan did not leave the *fabi* much chance of retaining its credibility. Considered as a milestone in Chinese monetary history, the *fabi* reform, its background and long-term consequences have been studied in detail, and need not be

44 The best-known work in this vein is Xian Ke’s influential monograph (1958). See also discussion in Chapter 4.1.

45 The spectre of similar ‘foreign exploitation’ pervades much of the research on Chinese economic history. For a methodological survey of pertinent literature – see, e.g., Wright (1986).

46 Consider, for example, the uneven performance of Yan Xishan’s Shanxi Provincial Bank and Liu Xiang’s financial excesses in Sichuan with the relative stability of the Provincial Bank of Guangdong under warlord Chen Jitang between 1931-1936. On Yan Xishan – see Gillin (1967), pp. 99-116, 134-139; on Liu Xiang – see Kapp (1973), pp. 93, 113-114; on Chen Jitang – see Fitzgerald (1990), pp. 764-766.
recapitulated here.\textsuperscript{47} What, however, remains under-studied is how — to secure the success of monetary reform in early 1936 — the GMD forced foreign banks to renounce their banknote issuance prerogatives and hand over their silver reserves.

Previous commissioned work on British overseas banking in China depict these expatriate financial institutions as generally conducive to the Nationalist cause of monetary unification.\textsuperscript{48} This dissertation will revisit such generalisations — particularly in the course of Chapters 4 and 5. It will argue that previous studies of British banks in pre-war China (1842-1937) have often been preoccupied with the portrayal of managerial personas, to the neglect of bottom-up quantitative analyses of capital flows; it will seek to correct those narrative lacunae in an attempt to present what may arguably be a more balanced picture of British bank operation in China, particularly during the 1920s.

1.4 Germane Polemics

Over the last three decades, one of two definitive polemics has featured in almost all studies on Chinese economic history. A fairly recent polemic concerns the performance of the Chinese economy under the late-Qing and GMD rule. Another more ‘ancient’ polemic branched off Max Weber’s seminal work — published almost a century ago — on the factors, which positioned Europe politically and economically ahead of China from the 16\textsuperscript{th} century onward.\textsuperscript{49}

The more recent polemic began after Thomas Rawski and Loren Brandt published markedly positive estimates of per capita Chinese agricultural productivity growth in the century preceding the Pacific War. Rawski and Brandt revised what had been hitherto an almost unanimously dismal portrayal of living standards in the Chinese hinterland. Based on econometric analyses of land surveys and price data, they concluded that total agricultural output between 1850-1937 overtook population gains by approximately 1%.

\textsuperscript{47} Even implacable critics of GMD policies concede that the scale of the fabi reform was unprecedented in terms of monetary unification. See for example Zhong Xiangcai’s detailed study (1995), p. 30; cf. Lin, Wei-Ying (1936), \textit{passim}.


\textsuperscript{49} Weber’s influential treatise \textit{The Religion of China} was first published in German in 1922.
annually.\textsuperscript{50} These views have since been contested by numerous other scholars, who point to the failings in GMD agrarian reforms, and who challenge both the premises and data that underlie Rawski and Brandt’s findings.\textsuperscript{51} Further, Rawski and Brandt’s view of efficient factor markets at work in early 20\textsuperscript{th}-century China remains at odds with a fairly large number of case studies conducted in recent years.\textsuperscript{52}

The problem that historians of both persuasions face is that, even after questionable macroeconomic data are ‘husked’, demographic trends in the pre-war era prove elusive. It had been, for example, conventionally believed that during 1850-1873 China witnessed a dramatic hike in mortality rates mainly due to the afflictions of the Taiping Rebellion (1851-1864). But in an influential article published in 1978, Peter Schran has shown that census figures from the mid-19\textsuperscript{th} century should be revised upward by approximately 50 million. This, in turn, translates into lower population growth rates in the early 20\textsuperscript{th} century and — by implication — may well dampen per capita GNP estimates for the Nanjing decade.\textsuperscript{53}

Schran’s findings suggest that aggregations based on late and post-Imperial observations could easily be misinterpreted, when they are indiscriminately applied to a land as regionally diverse as China. Regional variance during that period reflected not just different factor endowments, but also the parcelling up of large swathes of China by foreign Powers — with Manchuria under Russian and then firmer Japanese control, and the Yangzi basin under loose British patronage, both experiencing rapid industrialisation.

In sum, interpretations of economic realities in pre-war China oscillate between ‘pessimistic’ and ‘optimistic’. Pessimists underscore problems in production relations, e.g. lack of long-term tenure security, peasant immiserisation, and overpopulation. On the other


\textsuperscript{51} See for example Esherick (1991) and Little (1992).

\textsuperscript{52} Fox (1994) and Wright (2000), for example, call into question the notion of fast equilibrating inter-provincial labour and commodity markets that Brandt and Rawski propose for early 20\textsuperscript{th}-century China.

\textsuperscript{53} For a comprehensive discussion — see Schran (1978), p. 642; Schran gives a set of 4 alternative estimates for 1850-1953. These range between 430-435 million people for 1850, and 574.2-582.6 million for 1953. Accordingly, Schran infers that there had been a population rise of about 50 million people between 1913-1953, or an annual population growth rate of 0.3%. Notwithstanding war fatalities, this figure is still lower than the 0.7% inferred by previous estimates.
hand, optimists identify consistent growth in agricultural productivity transmitted by the ameliorative effects of China's integration with world markets.\textsuperscript{54}

Convergence of opinion in this complex debate seems for now far from sight. Nonetheless, recognition of basic primary source shortfalls has recently induced Loren Brandt — arguably the most pronounced ‘optimist’ — to qualify some of his earlier statements:

\begin{quote}

Despite the marked increase in growth, it is obvious that not all the potential of the Chinese [pre-war] economy was tapped, and that a variety of constraints continued to prevent more rapid growth from being achieved...[T]rends are much more difficult to assess [than in the 1990s], but data do not appear to support the view of a long-term deterioration in the distribution of income over the late 19\textsuperscript{th} and early 20\textsuperscript{th} century.\textsuperscript{55}
\end{quote}

Either way, this dissertation is informed by the notion that, in order to understand China's pre-war economy, it is necessary to disassemble the jigsaw-puzzle image into which it is often lumped. It largely accepts Mark Elvin's suggestion that the Chinese economy in the first half of the 20\textsuperscript{th} century should be divided into 4 distinct macro-systems with substantive income disparities — the poor rural hinterland, the bustling treaty-ports, Japanese-managed Manchuria and Taiwan, and the separate pastureland economy of Northwest.\textsuperscript{56}

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The variance of opinion between ‘optimists’ and ‘pessimists’ on the degree of market integration in late-Imperial China echoes, in a sense, a more profound debate over the root cause of European preeminence in the early modern era. Why did China's technological, monetary and institutional head-start over the West in the 10\textsuperscript{th} - 13\textsuperscript{th} centuries dissipate?

\textsuperscript{54} For a trenchant review of the main protagonists in this debate and of their respective arguments — see Myers (1991); for an earlier and somewhat different appraisal by the same author — see Myers (1970), pp. 211-214, 292-295.

\textsuperscript{55} Brandt (2000), p. 29.

\textsuperscript{56} Elvin (1981), pp. 254-255; based on extensive fieldwork in Sichuan, Skinner (1993, p. 40) pointed to another facet of micro-variation in pre-war China: some local markets in the same marketing area used different weights and measurements right until the 1950s.
Until the mid-20th century, Western thinkers assumed that economic progress in China had been forestalled owing to supra-structural impediments like the autocratic nature of China’s Confucian body politics, the self-professed ‘amateurism’ of her officialdom or the ‘passivity’ of her countrymen.\textsuperscript{57} Ironically, such sweeping cultural judgements seem to be creeping back to the academic discourse through the back door — this time not to explain underdevelopment in the pre-war era but to foreshadow the rise of East Asia in the 21st century.\textsuperscript{58} PRC historians, on the other hand, have consistently adhered to an inverted Marxian theory, alleging that China’s ‘sprouts of capitalism’ had been maliciously trampled by Western imperialist incursions.\textsuperscript{59}

Socio-cultural impediments to modernisation, like the low status of merchants, could certainly be found in traditional China. However, recent scholarship has substantially reshaped our views of the merchant class in the late Qing, pointing to vertical linkages with the gentry and officialdom manifest, for example, in the sale of Qing Imperial degrees, or absentee land ownership.\textsuperscript{60} While ‘Confucianism’ often connotes familial prejudice, cronyism and autarkism — these are not necessarily insurmountable obstacles on the road toward economic modernisation. This is perhaps why the onus of most interpretations has shifted, since the 1970s, from the socio-cultural dimension to the demographic one, highlighting critical factors such as the marginal rates of substitution of China’s production inputs.\textsuperscript{61}

But a well-rounded account of China’s economic performance in the late-Imperial era cannot be produced while ignoring the role played by central government and financial institutions. This dissertation will underscore the late-Imperial state’s relinquishment of monetary reins. It will touch on the Qing’s emaciated tax base and its minimalist central-government bureaucratic apparatus; on its lack of interest in market regulation, and on its

\textsuperscript{57} For representative arguments — see Weber (1951), passim; Wittfogel (1957), pp. 101-103; Balazs (1964), pp. 28-32; Balazs and Wittfogel, in particular, view the rapacity of state organs as the main brake on urban regeneration and mechanisation.

\textsuperscript{58} Since Mao’s legacy has lost much of its appeal on the Mainland, Chinese and other social scientists have ‘mobilised’ Confucius onto the CCP reformist bandwagon to explain China’s pursuit of economic prominence in the 21st century — see De Bary (1991), pp. 103-109.

\textsuperscript{59} For an overview of PRC theoretical trends in economic history — see Zelin (1998).


\textsuperscript{61} See, e.g., Elvin (1973), pp. 285-316.
miscomprehension of Western business practices.\textsuperscript{62} Local bailiffs reported, for example, only about half of all tax revenue to their superiors in the late-Imperial era. By and large, tax revenues dwindled from about 10\% of total agrarian production during the Ming to only about 2\% in the late-Qing.\textsuperscript{63} The famous \textit{lijin} 畿金 or Likin transit duty constituted the sole fiscal innovation throughout Qing reign, but even this measure was more a result of provincial initiative than of central government resolve.

Peer Vries similarly noted that there was much to be gained in comparing China and Britain’s respective government bureaucracies in the 19\textsuperscript{th} century. Despite vast differences in absolute size — China’s population was 30 times bigger — the number of officials and the tax revenues that furnished them were similar in both countries.\textsuperscript{64} Such global comparisons suggest that population pressures alone cannot adequately explain China’s technological falling-behind, if only because they had not obstructed the economic take-off of densely inhabited Meiji Japan.

This dissertation will analyse market failures that help explain operative differences between expatriate and Chinese firms, as a prelude to why British bank notes were sought after in Shanghai. It is, in that sense, less informed by demographics than by recognition of the significance of institutions along the lines identified by Douglass North. Heavily drawing on the European and North American experience, North and his co-authors have persuasively shown how central authority espousal of property rights — through the dissemination of a civil code, patent laws, insurance premia and Royal Charters — is one of the definitive factors behind economic modernisation;\textsuperscript{65} once the private rate of return on research and development was propped up to match the public one in the 16\textsuperscript{th} century, Britain could embark on a course whereby imported foodstuffs gradually freed up factor resources imperative for the Industrial Revolution. The ‘institutional formula’, which allowed Britain to escape many of the demographic checks that all other premodern polities had grappled with, was not unique. Much the same dynamics had first occurred in the United Provinces of the Netherlands during the 15\textsuperscript{th}-17\textsuperscript{th} centuries, and held out roughly until the Batavian Republic succumbed to mercantilism in the late 18\textsuperscript{th} century. In the late

\textsuperscript{62} Low taxation and self-sufficiency were implicit in Ming and Qing neo-Confucian indoctrination — See Wong, R. Bin (1997), p. 102; cf. Skinner (1993), p. 11.


\textsuperscript{64} Vries (2003), p. 27-28.

\textsuperscript{65} North and Thomas (1973), pp. 154-157.
19th century, the same dynamics lent the American economy sufficient impetus to succeed Britain.66

North captured the essence of European economic ‘exceptionalism’ for what it is worth, but the theoretical construct, which he had laid down, has been increasingly engaged with, and finessed, by scholars steeped in Asian and Mediterranean history also.67 Working largely within the latter category but borrowing extensively from game theory and diverse geo­
genre scenarios, Avner Greif has made one of the most consistent contributions to an emerging model of institutional fluidity and optimal growth.68 Though the empiric underpinnings of this model are still fairly raw, some of the key concepts it is advancing will be employed in taxonomy of Shanghai’s financial markets, particularly those relating to contract-enforcement and coercion-constraints (Sections 2.3, 2.4).

A major challenge to this institutional approach is mounted by ‘California School’ historians, who see much the same free market dynamism at work in 17th-century East Asia without any industrial turnaround.69 They therefore conclude that other factors better explain British economic performance, e.g. colonial extraction, denser coal deposits, or the competitive nation-state modicum.

Kenneth Pomeranz’ pathbreaking book – *The Great Divergence* – is perhaps the most forceful iteration of ‘California School’ views. Admiringly conversant with the economic histories of both continents, Pomeranz marshaled a vast array of secondary source data to argue that England’s ascendency in the early 19th century should be ascribed to her ‘shadow acres’ in offshore colonies, and the proximity of her domestic coal deposits to arterial waterways.70 A comprehensive riposte to Pomeranz’ main thesis is yet to emerge. Nonetheless, discerning readers of Pomeranz’ work are left with one niggling Northian question unanswered: if coal and colonial possessions, as opposed to market dynamics, were the key to England’s ‘freak’ departure from Malthusian constraints, why didn’t the Iberian economy, which had ample amounts of both, evolve in quite the same way?

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67 For a survey of current trends in Asian economic history – see Van der Eng (2004).
68 Greif (2005).
Pomeranz’ de-emphasis of divergent institutions between England and China is perhaps surprising, given that his own early work on late-Imperial Shandong had ably highlighted the degree of market imperfection plaguing much of the Chinese hinterland. That interest and exchange rates fluctuated wildly from one county to another, but were more moderate in foreign-controlled Qingdao, is one resounding symptom of this failure.71 Nonetheless, Pomeranz’s perception of a late 18th-century English departure from either European or Chinese growth patterns is filliped, to some extent, by elaborate econometric analysis of secular price data presented by Shiue and Keller.72 Theirs is a comparative research whose rigor would be truly compelling, if it were not for the devil lying in small detail, as often is the case with Chinese sources. In contrast to Northian theory, Shiue and Keller argue that there is no strong evidence to support the existence of a unique European ‘institutional formula’ for economic growth, since markets in China appear no less efficient than in continental Europe right up to the 19th century. Yet their regressions do not seem to factor in exchange rate fluctuations of different European currencies or regional variations in the value of the Chinese tael, and are otherwise characterised by low levels of significance.73

A rather different itineration of California School arguments has recently been advanced by Jack Goldstone, as if to address an aspect of the Eurasian divide that Pomeranz’ analysis has “written out of the scenario”, i.e. science.74 Pace Goldstone, readily available coal was a necessary but not sufficient factor in the makeup of Britain’s Industrial Revolution. He identifies cycles of ‘crises’ and ‘efflorescence’ — the latter implying a per capita GDP growth rate of up to 1% annually — as an attribute common to many Eurasian economies before the 19th century, from Golden Age Netherlands in the West to Tokugawa Japan in the East.75 He then concludes that what set the British economy apart from the Eurasian norm in the mid-19th century was not merely new sources of energy, but an ardent pursuit of applicable scientific know-how to harness latent resources. Goldstone concedes, however, that the sustainability of what he terms as Britain’s peculiar ‘engine science’ and

73 See Shiue and Keller (2004), Data Appendix pp. 32-37, Table 3.
74 For this critique of Pomeranz’s Great Divergence – see Elvin (2001).
its spread into popular culture was greatly facilitated by older institutional elements such as commercial law and the constitutional structure of the British government.\textsuperscript{76}

An important tenet generally propounded by all California School adherents is the notion that the formation of joint-stock companies in Europe cannot be seen as unique.\textsuperscript{77} But while Japanese scholars have, for example, traced the first Chinese joint-stock partnerships as far back as the 10\textsuperscript{th} century, these have often sprung in the face of government policy, rather than as a result of it.\textsuperscript{78} Furthermore, the sources which point to the occurrence of joint-stock enterprise in late-Imperial China do not come near the degree of transparency and detail that characterise legal documents surrounding the establishment of British joint-stock firms, from their very inception in the early 16\textsuperscript{th} century, as compiled for example by William Scott.\textsuperscript{79}

Scott’s pioneering work is suggestive of a long continuum of institutional evolution that links publicly-funded trade expeditions to the Baltic and Africa under Elizabethan patronage with the establishment of chartered banks, including those operating overseas, later in the Victorian era.\textsuperscript{80} Strictly speaking, the study presented here deals with only one aspect of overseas banking. Nevertheless, the broader implications of British banknote issuance in China will be revisited in Chapter 6.4 in a bid to explore whether this case study can offer hints as to the role institutions play in modern economic growth.\textsuperscript{81}

\textsuperscript{76} Goldstone (2002), p. 374; the ‘engine science’ is a concept that radically departs from Goldstone’s earlier analytical framework which was essentially culturalist – see, e.g., Goldstone (1996); on the diverging trajectories of scientific exploration between Europe and China – see also Elvin (2004).

\textsuperscript{77} This notion is largely based on William Rowe’s magisterial study of Hankou and Madeleine Zelin’s work on the Furong Salt Yard in Sichuan. These two scholars have pointed to the occurrence of joint-stock enterprise in early modern China, but whether their respective case studies truly substantiated non-kin participation in stock-holding is open to question. See Rowe (1984), pp. 72-73; Zelin (1988).

\textsuperscript{78} See, e.g., Shiba (1968), pp. 117-120, 458-461.

\textsuperscript{79} William Scott’s monumental work \textit{The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720} (3 Vols.) was first published in 1912.

\textsuperscript{80} On chartered trading companies as precursor of the Western corporate model – see Carlos and Nicholas (1988).

\textsuperscript{81} For one theoretical articulation of ‘modern economic growth’ – see Kuznets’ classic work (1966), pp. 490-500. In essence, Kuznets argued that the term should apply to countries where the decennial GDP growth rate measures 15%-30%.
1.5 Methodology

Choosing to focus on British banknote issuance in China has meant that the primary sources used here were mostly compiled in London. Many of these materials have scarcely been analysed by economic historians of China before, possibly because the large amount of archival materials made available in the PRC in the last two decades has proven more of a drawcard for researchers. With a few exceptions, however, studies weighted toward Mainland and Taiwan archives may leave our understanding of the Sino-Foreign encounter incomplete.

More pertinently, scholars who made attempts during the 1930s to analyse foreign bank note issuance often complained that the lack of disclosure of financial data by foreign bank branches in Shanghai, particularly as regards bullion reserves and note circulation volumes, compromised their findings.82 This topic has continued to resonate in many Chinese studies since. As late as 2004, for example, the economic historian Hong Jiaguan wrote that the secretive nature of foreign bank operations in pre-war China meant that extant source materials could merely yield a ‘guess-estimate’ (guji he cesuan 估計和測算) of treaty-port banknote circulation volumes.83 Now that much of the relevant data has been deposited in the public domain gives all the more reason to revisit this topic.

The pith and structure of the following chapters is such that readers can, at any stage, relate British banknote issuance in China to themes of broader import, often with a global bent, and consider the general arguments several times over. Chapter 2 will describe how financial markets in Shanghai operated, and try to identify where foreign and local finns intersected. Chapter 3 will offer analysis of recently-declassified CBIAC materials that are almost purely of quantitative nature. Banknote circulation patterns emerging from this analysis will then be considered in light of the evidence compiled in the HSBC Group Archives, where Shanghai branch correspondence has been preserved but quantitative data is much more piecemeal. Chapters 4 and 5 will draw on these HSBC records to demonstrate how China’s monetary fragmentation in the pre-war ear had been viewed by British taipans, and the extent to which banknote issuance contributed to Shanghai branch viability. Inevitably, therefore, this dissertation is not guided by rigid chronology, but recounts aspects of two overlapping corporate histories.

82 See Chen Shao-teh (1932)[1982], pp. 303-305; Yang Yinpu (1930)[1972], pp. 195-197; Guo Xiaoxian (1935)[2005], pp. 103-104.
One problematic issue that previous studies had little of substance to say about is the fact that many of the British banks which had operated in nominally-independent parts of the developing world were also the main banks of issue in adjacent colonies; HSBC and CBIAC claimed a large segment of the money stock in both Hong Kong and the Straits Settlements during the 19th century. Was the colonial setting of British banknote issuance in Hong Kong any different to the one obtaining on the Mainland? This is one of the most important derivative questions that the following chapters set out to answer. They will do so by drawing clear if purely notional distinction between banknotes that were denominated in HK$ to banknotes denominated in Chinese units of accounts, like the tael or Shanghai dollar [hereafter ‘quasi-foreign banknotes’]. Appendix 1 will present a long-term reconstruction of British banknote circulation volumes in Shanghai that makes allowance for such contingencies. By de-merging HK$-denominated notes, whose spread in China was largely confined to the Lingnan region, from the quasi-foreign notes used in the treaty-ports — economic conditions in Shanghai will be thrown into high relief.

Final conclusions will be drawn bottom-up, and this is by no means arbitrary choice. As a discipline, Chinese economic history is overlaid with polar views, but at least one consensus seems to have begun forming. If scholars are to move on beyond preconceived frameworks, sweeping generalisations should make way for much neglected provincial and county-level research, where data are substantially more reliable, and quite often more instructive, than macro-level observations. Accordingly, the ideas, data and methodology around which this study is strung are all localised in essence; they highlight a neglected everyday aspect of treaty-port life by primarily consulting the records of distinct treaty-port financial institutions.

Chapter 2

Changing Dimensions of the Sino-Foreign Financial Grid in Pre-War Shanghai

I have seen places that were, no doubt, as busy and as thickly populous as the Chinese city in Shanghai, but none that so overwhelmingly impressed me with its business and populousness. In no city East or West, have I ever had such an impression of dense, rank, richly clotted life...

...So much life, so carefully canalised, so rapidly and strongly flowing — the spectacle of it inspires something like terror. All this was going on when we were cannibalistic savages. It will still be going on — a little modified, perhaps, by Western Science, but not much — long after we in Europe have simply died of fatigue...

Yes, it will all be there, just as intensely and tenaciously alive as ever — all there a thousand years hence, five thousand, ten. You have only to stroll through old Shanghai to be certain of it. London and Paris offer no such certainty. And even India seems by comparison provincial and precarious.

Aldous Huxley (1926)

2.1 Introduction

This chapter is intended to set the scene in which quasi-foreign banknote issuance came about in pre-war Shanghai, and without which one could scarcely comprehend the significance of this monetary phenomenon. Whereas the following chapters will expand precisely on the particularities of British note issuance in Shanghai, this one will draw on a wide range of lateral and secondary sources in order to cursorily sketch how financial markets operated in the city, with particular emphasis on the confluence of foreign and local institutions.

1 Huxley [1991], pp. 271-273.
Until recently, studies of the history of Shanghai were largely devoid of precise microeconomic data on the city’s foreign sector, and those conducted in the PRC were often permeated with ideological reprobation. The reason why observers — Western and Chinese alike — found Shanghai a hard nut to crack was the fact that, once its foreign settlement had been ceded by the Qing following the Nanjing Treaty of 1842, this outlying area became neither quite foreign, nor quite Chinese. Whether looked at through the prism of institutions, economy, culture or lifestyle — Shanghai tended to display mind-boggling hybridity. This hybridity could only be overturned in the post-war era, when PRC ‘commissars’ cleansed the Bund (Waichuan), Shanghai’s vibrant and cosmopolitan business district on the banks of the Huangpu River, of much of its foreign heritage. That this hybridity was, however, disarmingly uncanny, is perhaps

2 See, e.g., Murphey (1953) and Zhongguo ziben zhuyi gongshangyue de shehui zhuyi gaizao (1993).
3 For pioneering studies that have begun addressing some of these aspects — see Wasserstrom (1991); Wright (1991); Roux (1993); Perry (1993); Wakeman (1995); Takahashi and Furumaya (1995); Yeh Wen-Hsin (1995); Goodman (1995); Martin (1996); Bickers (1999); Lu Hanchao (1999); Fogel (2000); Yeh, Catherine Vance (2002).
4 Huxley depicted Shanghai as timeless but, in fact, the origins of significant Chinese settlement in its immediate environs can be traced back to the 8th century at the very earliest. On Shanghai before the arrival of Europeans — see Elvin (1977) and Johnson (1995); for a detailed chronology of Shanghai’s development — see Tang Zhenchang (1989), pp. 963-994.
5 Henriot (2001), p. 6; see also Miller (1937).
6 Dong, Stella (2001); Sergeant (1990); Wei, Betty (1987)
best illustrated in the famous 1949 footage showing sandal-clad PLA soldiers glaring at neon-lit Chinese-character billboards and sky-scrapers with disbelief, as they march in from the bucolic Mainland to repossess the city from its equally puzzled urbanites.\(^7\)

That said, this chapter will endeavour to avert notions of Shanghai’s ‘inscrutability’ at least insofar as they arch into the economic sphere, and insofar as the yield of newly-published research permits. It will focus in particular on those institutional and financial patterns that distinguished Shanghai from the Chinese hinterland.

It was only natural that an Empire as vast as that of the late-Qing should produce a lot of ‘white noise’ for Shanghai’s early British administrators to contend with. Section 2.2 below will review precisely that — namely, the ways in which China’s endemic monetary fragmentation in the pre-war era accentuated Shanghai’s distinctness from the rest of the country, and how this fragmentation created the demand for quasi-foreign banknotes; Section 2.3 will discuss how the onset of foreign banks in the city reconfigured local capital markets, consolidated organic contract-enforcing mechanisms, and gave rise to new ones; Section 2.4 will focus on foreign extra-territoriality as a rather loosely-defined yet vital coercion-constraining measure that helped bind the Shanghainese economy together; Section 2.5 will put Shanghai’s economy in global perspective by drawing comparisons between the makeup of British interests in China and Latin America; Section 2.6 will explore whether Shanghai’s capital markets were conducive to, or retarded, China’s industrialisation. Finally, Section 2.7 will seek to generalise what was unique to the Shanghainese pre-war economy.

2.2 Monetary Fragmentation

One of the most vexing problems British businessmen faced as they penetrated deeper into the Chinese Mainland from their older strongholds in Hong Kong and Guangzhou in the late 1840s was what they saw as the Chinese Mainland’s refractory currency system. At first, some tinkered with the idea of proclaiming the sterling standard in Hong Kong as an anchor of monetary stability. But by the early 1860s, most British imperial policy-makers in the region had come to realise that as complex as China’s system was, it was much too entrenched to give way to a uniform currency promoted by a small number of foreigners in

\(^7\) Barber (1979), pp. 144-159; Bergère (2002), pp. 359-362.
a colony perched on "a mere barren rock". Subsequently, the Hong Kong currency was to adapt to the preferred store of value on the Mainland: the silver dollar. The Colony’s subsidiary coinage, too, largely emulated China’s copper cash.

While the Hong Kong currency was framed into the Chinese system, it was hoped that it would at least escape the adulteration that its generic equivalents on the Mainland suffered from, and would gain wide acceptance throughout the Celestial Empire. But the limits of this conjecture soon became apparent: the Hong Kong currency remained at best one of many foreign currencies circulating in littoral China. In Shanghai, where the institutional and cadastral underpinning of British settlement was much more patchy than in Hong Kong, early attempts to introduce Hong Kong minted silver coins denominated in the local tael failed to take root. For the next century or so, the city’s foreign concession areas had to rely on Chinese coinage and recast imported bullion for their metallic money supply.

Shanghai initially attracted the British because of its expedient location as a gateway to the Lower Yangzi Basin. The first British bankers to descend on the region in the 1850s realised that the key to success there was mastery of prevailing currency vagaries, and some would later show intimate knowledge thereof. Charles Addis, then a Scottish debutant recruited by the HSBC to be sent East, observed as early as 1886:

[T]he only money which circulates universally throughout the length and breadth of the land is copper cash (tung-chien). With regard to other kinds, an intense provincialism prevails — silver lumps, silver dollars, small silver pieces, and copper cents circulating on their face value only

8 See a copy of the despatch from Hong Kong’s Governor, Sir Hercules Robinson, to the Duke of Newcastle dated 9 March 1861. In Hong Kong: ‘Copy of Correspondence between the Secretary of State for the Colonies and the Governor of Hong Kong upon the Subject of the Currency of the Colony. (1863).


10 Murphey (1953), pp. 57-61.
in the province where they are minted, in other provinces at a discount. In the case of foreign [coins], there is some, which circulate throughout the treaty-ports. Some kinds of liang (tael) notes, dollar notes, or chien [copper-denominated] notes, issued by Chinese banks or exchange houses circulate only in the city where they are issued. A traveller when passing from one province to another should be careful to change the money of the former for the latter.11

These remarks are revealing because they were made shortly before HSBC launched its banknote issue in Shanghai. Although the passage does not bespeak anticipation of this event, it does demonstrate that British bankers had certainly come to grips with the Chinese monetary system.

What British bankers had to accommodate, though, was the fact that none of the Treaties that China had signed with different European Powers in the late 19th century sanctioned foreign bank presence beyond the designated treaty-ports, of which Shanghai became the largest. With the exception of Beijing, British banks could not set up branches in areas under effective Chinese jurisdiction. This meant that the farther one ventured out of Shanghai, the less likely one would be to come across quasi-foreign banknotes in use.12

But there was much more to this than jurisdiction, since notes were traditionally assessed in the Chinese marketplace based on their place of issue, while particular bank insignia were of less importance. An informed Western testimonial from 1904 described foreign bank practices as follows:

The principal foreign banks [in China] are [HSBC], the Chartered Bank of India Australia and China, the Yokohama Specie Bank, [Banque Russo-Asiatique], [Deutsche-Asiatic Bank], and [Banque de L’Indochine]. These banks do a considerable deposit and discount business...[They] do their business in China without any contract with the Chinese government, and with no charter issued by that government. They are there simply on tolerance...with the protection of extraterritoriality.

Several of these banks issue bank notes under the authority of their charters from home, but without any charter or other grant of privilege from the Chinese government, either central or provincial. The bank notes form a convenient medium of circulation in some of the treaty-ports and within narrow limits outside of those ports...

A Shanghai bank note, for example, is very generally discounted if presented to the Tientsin [Tianjin] or Peking [Beijing] or Hongkong branch of the same [foreign] bank, the discount sometimes being as high as 5 per cent, although the two cities are only some three hours apart by railroad...

The [foreign] banks are, generally speaking, known for their accuracy and carefulness in carrying out their contracts and in meeting their obligations. But they occupy a position of such advantage in many ways that it seems likely that their high profits are obtained in part at the expense of the development of trade in other directions in spite of the fact, one may add with even more emphatic truthfulness, without the facilities which they have offered, it would have been utterly impossible for trade to have developed anywhere nearly so well as has been the case.13

In a later note on Chinese currency, probably from the early 1910s, Addis made a similar if less critical remark:

Foreign coins circulated widely in all the treaty-ports and in the larger cities of China. But the [foreign] banknotes circulate only in the city where they are issued; for instance, those issued by a bank in Shanghai not being accepted by merchants of Peking [Beijing], or only at a discount...14

13 Hanna, Conant and Jenks (1904), pp. 47-49. These paragraphs were part of the report submitted by the Jenks advisory mission to China, referred to below.
14 In SOAS, Charles Addis Papers, PP MS 14/380. This subsequent memorandum is not dated but reference to “...the late Manchu Dynasty” suggests that it was entered not long after the 1911 Revolution; for near-contemporary surveys that reached much the same conclusion — see Wei Wen Pin (1914), p. 50 and Arnold (1919), p. 591.
Monetary fragmentation in China intensified toward the demise of the Qing Dynasty and through the Beiyang period (1912-1927). Though both regimes promulgated countless measures to the contrary, these Beijing-based late-Imperial and early Republican governments had made monetary fragmentation much worse by resorting to debasement in order to jack up seigniorage revenue from newly-founded state mints.

Initially, Qing provincial governors purchased European minting machinery to increase the output of copper coinage, which had been in short supply throughout the late 19th century, as Ho Hon-wai has ably shown. Once at work, the governors soon realised that modern technology extended government capacity to reduce the intrinsic value of the coins while passing them off as equivalent to time-honoured units of payment. This had far-reaching, often horrendous, effects because low-denomination copper coinage was the lifeblood of retail in the Chinese premodern economy. While it expedited the recourse to private fiduciary currency in some localities, the debasement resulted in an inflationary spiral and breakdown of trust in metallic money in others.

The Diplomatic and Consular Reports regularly produced by British officials before World War I bear what is perhaps the most lucid testament of this transition from copper coin shortages to the debasement of copper coinage, and the ways in which it affected the demand for other means of payment in various places.

An 1898 dispatch from Fuzhou stated for example:

The large amount of paper in circulation helps to relieve the stringency caused by the scarcity of [copper] cash. A rough estimate of the local paper currency places the note issue of the 11 chief [Chinese] banks at 6 or 7 lacs of dollars. In addition to these there are numerous cash shops with a paper circulation of a few thousand dollars, a large portion of these notes being for small amounts. The small silver coins issued by the Foochow [Fuzhou] Mint are also much in use, but of these there are at present struck only 20c., 10 c., and 5 c. pieces.

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A concurrent report from the fairly peripheral treaty-port of Shashi in Hubei province seems to suggest that the interior was significantly more reliant on copper as a store of value, and therefore somewhat less receptive to new types of money:

Copper cash and cash notes form the entire currency of the port, silver being but little used and dollars scarcely at all... There are said to be 130 cash shops in the town, nearly all of which issue notes. These notes are for 1,000, 5,000 and 10,000 [copper cash]... Those issued by the more reputable firms in Shashih [Shashi]... are current for some 30 miles around, but even these are useless in Ichang [Yichang]. The market is flooded with paper of 1,000 cash, mostly issued by small shops in the Manchu city of Chingchou [Jingzhou], for which it is always exceedingly difficult to get change even in Chingchou itself.17

The implications of Chinese central and provincial government intemperance were such that Shanghai, because it headquartered large foreign banks, soon became one of the only places in early 20th century China where the convertibility of paper money was standardised. To put it more precisely, it was one of the few places where banknotes — in this case primarily quasi-foreign — were readily convertible into silver dollars, or into bullion of verifiable quality, regardless of the political climate at large.

By the 1920s, J.P. Braga, scion of one the most eminent Sino-Portuguese families in Macao, could confidently state: “The banknotes of all the foreign banks, and a few of those issued by the leading Chinese banks in the treaty-ports, have the full confidence of the public and circulate freely, since they constitute (particularly those issued in dollars) one of the very few [media] of exchange on which one can rely.”18

A handbook for Western travelers, while warning that Hong Kong and Straits dollar coins were not at all prized in Shanghai, reached much the same conclusion:

17 See Diplomatic and Consular Reports: China. ‘Report for the Year 1897 on the Trade of Shashih’, p. 27; the rarity of silver dollars or notes as media of payment in the interior is also attested to in Hanna, Conant and Jenks (1904), p. 14.

18 In National Library of Australia [hereafter NLA], Braga Papers, MS 4371; on the millions of dollars worth of inconvertible notes that had inundated other parts of China by then – see, e.g., report in the Chinese Economic Bulletin, 4 June 1927, pp. 304-306.
All the leading [foreign] banks issue notes for one, five, ten dollars or upward. These notes are the most convenient method of carrying money. As the silver Mexican dollar weighs about an ounce not many can be carried with comfort...

In dealing with money the traveler must look out for himself; nothing can save him from loss unless he does. Coinage suffers in many ways... There is a good deal of forged money: also occasionally, the small coinage of a particular province will come under suspicion. The rule is to have as little small money as possible, yet you must have some. Do not be offended as you might be at home, if a rickshaw coolie or shopkeeper returns a 20-cent piece saying ‘blass’ (brass). The chances are that he is right. Pay another coin and put your dignity in the pocket...

Testimonials from Chinese note bearers on what inspired their faith in foreign bank notes are harder to find, but desultory anecdotal evidence does exist. In 1879, Guo Songtao 郭嵩燾, China’s outgoing Minister to Britain, remarked upon his return home that he was surprised by the popularity which such notes had gained among his compatriots, whilst other Western innovations were still being rejected.  

Nearly half a century later, the *Times* correspondent in China reported that a fearsome gang of bandits in Anhui province had left the garrison town of Liuanzhou in ruins. The bandits carried off hundreds of residents for ransom, and “…many others had been cruelly tortured in order to extort money.” The correspondent was then bemused to report that the coveted loot had not been silver or gold. Rather, the “…curious feature is that the bandits are everywhere demanding Shanghai banknotes as being easier to carry, with the view, it is conjectured, of retiring to this city when their fortunes are made.”

The Nanjing Decade (1927-1937), which began not long before the Liuanzhou raid, saw a much better functioning central government at work than either the Beiyang or late-Imperial periods. To be sure, debasement did not entirely disappear under the Nanjing government. However, as Chapter 5 will clearly demonstrate, the GMD leadership pushed

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19 Darwent (1920), ff. v-vii.
20 King (1965), p. 104.
21 The *Times*, 3 July 1928, p. 16.
fairly consistently toward central banking and uniform currency along Western lines, and on balance helped improve the reliability of Chinese financial institutions.

The difference between the late-Imperial, Beiyang and Nanjing shades of central governance did not lie in rhetoric. In fact, all three regimes employed a fairly similar reformist economic terminology, and invited experts from overseas to help remedy monetary fragmentation. All foreign advisers recommended in one way or another that China abandon the silver standard and limit private and provincial banknote issuance but, as the following chapters will reveal, the GMD government was the only one ready to implement such measures. This was partly because the GMD did not shirk from confronting other foreign interests within China, British banks included.

The legacy of GMD resolve is, at any rate, clearly evidenced by a succession of measures that will be recapitulated in Chapter 5, but whose minutiae have been discussed at length elsewhere: the enforcement of banknote reserve policy and establishment of an embryonic central bank (1928); the introduction of the Customs Gold Unit to offset China’s deteriorating terms of trade (1930); the withdrawal of regional tael units (1933) and the proclamation of the fabi or uniform legal tender (1935).

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22 These foreign advisers left behind a fairly large body of literature on China’s economic problems. The principal foreign adviser to the Qing was Jeremiah Jenks - for details on his mission see Wagel (1915), p. 86; Hanna, Conant and Jenks (1904); another principal adviser, Dutchman G. Vissering, completed his work on China after the fall of the Qing – see Vissering (1914); Wagel (1915), pp. 111-112, 124-126; in 1928, the GMD government invited E.W. Kemmerer, a Princeton University Professor, to overhaul China’s silver currencies – for details on his mission see Ji Zhaojin (2003), p. 171. Toward the end of the Nanjing Decade, Sir Frederick Leith-Ross and American envoy Arthur Young were intimately involved in Chinese monetary reforms. For background details on their mission – see Ji Zhaojin (2003), pp. 190-194 and Young (1971).


25 For background details on the abolition of the tael in 1933 and the fabi reform of 1935 – see, e.g., Ji Zhaojin (2003), pp. 182-185, 194-203.
2.3 Taxonomy of Financial Institutions in Pre-War Shanghai

In order to understand what difference foreign financial institutions made to Shanghai’s capital markets, one must first have an idea of the degree of market integration in other parts of pre-war China. As explained in the introduction, this is an issue that is hotly debated by economic historians, and one that is permeated by regional variance. For lack of space, and owing to its succinctness, the following passage from the British Consular Reports has been chosen to highlight the situation in one locality, Nanning, the principal commercial hub of the then landlocked province of Guangxi through the 1910s:

There are a large number of [Chinese] banks established at Nanning, which advance money on cargo at exorbitant interest. They thrive on the discount and exchange between Nanning and Canton [Guangzhou]. Freight, insurance and interest are so high that goods sent from Canton to Nanning cost 30 to 40 per cent more at the latter port...26

Shanghai’s situation could well be described in similar terms before the establishment of the first British banks in the city during the 1850s. Since about the mid-18th century, the main financial intermediary in the Lower Yangzi basin — by far the most commercialised part of the country — were the qianzhuang 錢莊 known in English as ‘native banks’ or ‘moneysops’. These institutions were typically small proprietorships with unlimited liability, loosely aligned along family and dialect ties.27

Large moneysops lent funds and issued scrip against individual deposits called zhuangpiao 貨票 (shop coupon), but this could be cashed by proximate shops only after 10-15 days during which couriers would liaise with the issuing shop to rule out fraud.28 The main business of qianzhuang was, however, advancing loans to merchants to support the junk-borne trade in agricultural commodities between the seaboard and hinterland.

By comparison, the financial landscape in much of North China remained closer to the authorities’ grip. Until the fall of the Qing in 1911, the dominant institutions there were

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what Western observers called Shansi [Shanxi] Banks or *piaohao* 票號 (remittance houses) in Chinese. The *piaohao* were first set up in the 1820s by gentry-merchants (*shenshang* 紳商) from the city of Pingyao 平遙. They specialised in long-distance money transfers on behalf of government agencies or the dispatch of officials’ emolument.  

The scope of business of these two types of financial institutions was patently dissimilar: the *qianzhuang* profited from relatively high interest rates charged on unsecured loans to merchants, while the *piaohao* subsisted on draft commission. For this reason, some *piaohao* were known to deposit idle funds in *qianzhuang* interest-bearing accounts, so that the general relationship between the two was one of cooperation and complementarity rather than of confrontation.

Yet, as China’s economic centre of gravity began to shift during the 1850s from Guangzhou to Shanghai, and as affluent landlords and officials were seeking refuge from the upheavals of the Taiping rebellion (1851-1864) in the city’s foreign concessions, *qianzhuang* power solidified, branching off to investments in real estate and later in stock exchange speculation. Thus, while the dynastic collapse dealt a fatal blow to the Shansi banks in 1911, Shanghai’s moneyshops survived through to the 1940s.  

As from the 1860s, the *qianzhuang* clearly gravitated toward a new source of capital in Shanghai: foreign banks. By 1888, as many as 62 of Shanghai’s largest moneyshops were borrowing capital from foreign banks to the tune of millions of taels annually. Buoyed by this new source, the moneyshops transformed themselves into an indispensable conduit for the finance of treaty-port trade. Put simply, they on-lent foreign bank funds to Chinese wholesalers of imported goods for usance of about two weeks until the latter sold their stock, and paid off the debt. This form of on-call foreign bank credit came to be known as chop loans, or *chaipiao* 拆票.  

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30 McElderry (1976), pp. 68-69; Shanghai qianzhuang shiliao (1960), pp. 3-7; Cheng Linsun (2003), p. 38; a contemporary article in the influential Dongfang zazhi attributed the durability of the *qianzhuang* to their readiness to deal in small sums of money and to their efficient clearing guild – see Dongfang zazhi, vol. 23 no. 4, 15 February 1926, pp. 17-21.
British, European and Japanese banks could readily lay down funds in the treaty-ports because they had cultivated exclusive relationships with established foreign trading houses, ever ready to exchange local money for sterling bills. The banks were otherwise much better capitalised than the diffuse moneyslips; the credit they advanced reinvigorated treaty-port trade, which had often lapsed into barter patterns in the early 1850s. At the same time, foreign banks identified opportunities afforded by China’s fragmented money markets and political instability. By 1911 they mobilised domestic resources on an order of magnitude that exceeded their initial paid-up capital several times over — largely through banknote issuance and deposit receipts.

As security for chop loans, British banks often accepted *zhuangpiao*. It is therefore plausible to assume, as Susan Mann Jones has, that the origins of the chop loan contract lie in the fact that these ‘shop coupons’ had been so widely used when the British banks set up their first branches — that the latter could not simply reject them, when presented for encashment by foreign purveyors. Moreover, foreign banks were also compelled to keep an account with at least one moneyslip, since only the moneyshop guild could clear the myriad forms of *zhuangpiao* through an elaborate daily mechanism dubbed *huihua* 離割 or ‘draft exchange’.33

Chinese historians have routinely depicted the foreign bank-*qianzhuang* nexus as hugely exploitative, because the moneyshops were thought to have paved the way for foreign inroads into China’s economy. But in a recently-published article, Professor Shizuya Nishimura has debunked much of this contention by showing that chop loans did not take up the lion’s share of moneyshop liabilities, and were even more marginal on foreign bank balance sheets; occasionally, the moneyshops could even lend money back to foreign banks on call.35

More pertinent, Nishimura’s findings suggest that, quite often, British banknote circulation volumes in Shanghai were in the vicinity of total chop loan advances. Since both were a form of on-call entry on opposite sides of the banks’ balance sheets, it may not be entirely implausible to assume that, at least until 1911, British banks used one to

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35 Nishimura (2005), *passim.*
counterweigh the other. In other words, British banks may have simply reallocated Chinese capital on a short-term basis.

Though they had first supported foreign trade, chop loans were increasingly channeled to Chinese equity dealers by the qianzhuang in the early 1900s. But in 1910, Shanghai’s foreign stock exchange crashed due, in large part, to fluctuating world rubber prices, compounded by fraudulently-induced overtrading in rubber plantation stock. The crash left scores of moneyshops insolvent, and foreign banks weighed down by worthless zhuangpiao; the total outstanding debt of Shanghai moneyshops was estimated at 20 million taels, and their numbers dropped precipitously from 80 to 36 by 1911. This, in turn, brought an abrupt end to the chop loan construct. Worse still, the stock exchange crash ramified into a nationwide crisis that crippled nascent railway ventures, and was responsible in part for the provincial discontent that toppled the Qing.

The collateral impact of the crash meant that foreign bank prestige was rising. While scores of moneyshops became insolvent, Shanghai’s foreign banks astutely weathered the storm by colluding with Cai Naihuang 蔡乃煌, the local Imperial revenue superintendent (Taotai or daotai 道臺) whose own funds had been heavily invested in ailing moneyshops, to clear part of the trail of bad debt as a foreign bank loan on Chinese government security.

Nonetheless, the repercussion of the 1910 crash could be felt even few years later, as this Consular Report from 1913 suggests:

Monetary stringency in the provinces, due to the timidity of capital above alluded to, is perhaps the most potent factor in the present depressed condition of the import trade. Throughout the year sycee and dollars kept piling up in the coffers of the foreign banks at Shanghai, but the system under which loans used to be freely offered by the latter to the native banks had been shattered by the disastrous experience of 1910, and the native banks were in their turn precluded from financing Chinese dealers, so that the machinery of credit, upon

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which the large transactions of former years were based, was almost wholly broken down.\(^{38}\)

The breakdown of the chop loan construct projected its effects not just on the standing of *zhuangpiao* in the money markets — all the other organic, private-order arrangements that had undergirt it were badly hit. In the first instance, these related to the individual intermediaries employed by foreign firms to guarantee Chinese liabilities like *zhuangpiao* — commonly known to Westerners as ‘compradors’ or *maiban*.\(^{39}\) In the 1920s, the compradors would increasingly come under attack as ‘vestiges of colonialism’, and as a superimposed layer of middlemen whose commission charges inevitably translated into high interest rates facing small Chinese businesses.\(^{40}\)

With capital generally flowing from the hinterland in Shanghai’s direction, but with foreign banks often reluctant or unable to engage the domestic sector, it was only a question of time before a new intermediary came on the horizon. The suspension of chop loans in 1911 set the scene for newly-established Chinese banking institutions modelled on Western practice and run by foreign-educated executives to come out of the woodwork.\(^{41}\)

If the suspension of chop loans had left a void in the Sino-foreign grid, it was in fact World War I which presented Chinese modern banks with the opportunity to gain a foothold in financial markets. The outbreak of war and its reverberations changed the overall balance of power between the foreign and domestic sectors in Shanghai in a number of ways; it retrenched foreign banks’ resources, which were now mobilised to the war effort in Europe; it deterred Chinese customers from depositing money in foreign banks implicated in the war; last but not least — the Anglo-German conflagration shattered the united stand which the foreign banks had hitherto taken vis-à-vis the Chinese government and the domestic sector.\(^{42}\)

During the 1920s, Chinese banks had effectively supplanted the chop loan construct by advancing funds to the city’s moneysops against collateral securities or goods mortgaged

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\(^{39}\) On the compradors — see Sha Weikai (1927), *passim*; Ji Zhaojin (2003), pp. 54-57; Wagel [1980], pp. 114-118.


\(^{41}\) See, e.g., Zhang Naiqi (1936), pp. 330-331.

\(^{42}\) Ji Zhaojin (2003), pp. 141-147.
in the latter’s warehouses. The new *qianzhuang* – Chinese modern banking nexus gathered momentum and minimised the role of compradors. It could do so because, while they had a foreign flair about them, Chinese bankers were nevertheless tied to the *qianzhuang* by consanguinity and native-place bonds, and were infinitely more familiar with their intricacies than foreign bankers.\(^\text{43}\)

More generally, the impact of World War I on Shanghai was such that it allowed Chinese industrial entrepreneurship to thrive by producing for the local market and substituting increasingly expensive Western consumer imports. At times, these developments were offset by warlord conflicts raging in the hinterland. However, the surge of Chinese nationalism as from 1919, and the introduction of more integrative Chinese clearing mechanisms on balance helped sustain the pressure which Chinese banks exerted on the foreign banking sector from about 1914.\(^\text{44}\)

The foreign, non-British sector was, on the other hand, beset by salient bank failures through much the same period. In 1914, the Allies forced the Deutsch-Asiatische Bank branches in China to shut down. The branches were barely able to resume their operation in 1918; the Banque Russo-Asiatique, nominally a Sino-Russian joint venture but effectively a French-owned private firm, had to be reconstituted in the wake of the Bolshevik Revolution in 1917 and ultimately failed in 1925; The Asiatic Banking Corporation, a Sino-American joint venture, was on the brink of failure in 1924 and was eventually sold off to the International Banking Corporation;\(^\text{45}\) The Chinese-American Bank of Commerce, another US joint-venture, suspended business in 1928;\(^\text{46}\) but perhaps the failure most inimical to the reputation of foreign financial institutions occurred in 1921, when the French-owned Banque Industrielle de Chine had to suspend the convertibility of its Shanghai notes until Chinese banks came to its rescue.\(^\text{47}\)

That said, the rivalry between foreign and domestic banks during the Republican era should not be overstated. As much as Chinese banks benefited from the surge in nationalism after 1919, they seldom agitated against their foreign competitors. The two banking sectors were


still interconnected and, for the most part, subscribed to a fundamental division of labour between the finance of international trade (by foreign banks) and business transacted in local currency like call loans to qianzhuang (by Chinese banks). Notably, archival work by Chinese scholars has demonstrated that at least one Chinese bank, and that several qianzhuang deposited idle funds with foreign banks on a regular basis.\footnote{Du Xuncheng (2002), 82-83; Cheng Linsun (2003), p. 75.}

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The compradors embodied an organic, private-order mechanism that emerged in the mid-19\textsuperscript{th} century treaty-ports in response to language barriers and information deficits facing foreigners who wished to penetrate Chinese markets. Compradors personally guaranteed zhuangpiao and other Chinese liabilities before foreign institutions, but did not have the leverage to guarantee metallic money disbursed by foreign institutions in the Chinese marketplace. In the fractured monetary conditions of the times, other highly specialised organic institutions emerged precisely to that end: the \textit{gonggu ju} 公估局 and \textit{yinlu} 銀爐.

Few economic historians have paid attention to these institutions, but contemporary observers noted their vitality. This is how Charles Addis described them in 1886:

\begin{quote}
[T]he fineness [of ‘silver lumps’ or sycee] is determined either by Kung-ku-chü [\textit{gonggu ju}] (Public Assay Houses) or the Yin-lu (Silver Houses). The former are mostly private establishments, found in all large towns, where the weight and fineness of a silver lump are determined and inscribed on the face of the lump...The Yin-lu or Lu-fang, are Silver Houses, where silver bullion is melted and cast into silver lumps of certain standards and fineness. Most of the bullion is imported from abroad.\footnote{See ‘Notes on Chinese Currency’, dated 22 March 1866. In SOAS Charles Addis Papers PP MS 14/380.}
\end{quote}

The Shanghai Assay House was established in the Anglo-American International Concession by one Wang Lanting 江蘭亭, an Anhui sojourner. At first, he faced competition from similar establishments in the adjacent Chinese-run suburb of Shanghai (\textit{Nanshi} 南市 meaning ‘South City’ and often known to foreigners as ‘Nantao’). But all these soon merged to form one establishment on Ningbo Rd., which enjoyed unparalleled...
prestige for much of the pre-war period.\textsuperscript{50} True to Addis' description, the Shanghai Assay House was, then, privately owned ever since its inception in 1850. But unlike similar organic institutions in other parts of the country, it was not even nominally amenable to the local Imperial bureaucracy.\textsuperscript{51}

The Silver or Smelting Houses, which were also privately-owned and usually situated in the International Concession, specialised in recasting foreign bullion into conventional Shanghainese sycee at the behest of the qianzhuang. Together, these two types of Houses embodied a separation of powers between the production and verification of metallic money. Nonetheless, it appears that their leverage — much like the comprador-mediated arrangements — was unilateral. In other words, while compradors could not guarantee foreign liabilities before Chinese agents, the Assay and Silver Houses were not generally patronised by foreign firms.

In the absence of initiative on the part of the British-run Shanghai Municipal Council [known as SMC or gongbu ju 公局 in Chinese] to create institutions dedicated to the regulation of money supply — compradors, Assay and Silver Houses duplicated financial intermediation: assay commissions alone imposed an \textit{ex ante} mark-up of up to 0.5% on business transactions in the city.\textsuperscript{52}

By contrast, the early introduction of a uniform currency — coupled with the resolute decommissioning of Chinese coinage by Governor Francis H. May during the 1912-3 — made monetary conditions in Hong Kong much more transparent.\textsuperscript{53} There, notes issued by the same British banks soon became the most common media of payment,\textsuperscript{54} whereas in China proper British banknote issuance never commanded a large share of the money stock; hence, it was only partly able to mitigate idiosyncratic transaction costs in the treaty-

\textsuperscript{50} Yang Yinpu [1972], p. 110.
\textsuperscript{51} Hong Jiaguan (2003), pp. 112-113.
\textsuperscript{52} This estimate is based on the customary 0.25% shroffing commission charged by both the yindu and gonggu ju — see Hong Jiaguan (2003), pp. 113-115.
\textsuperscript{53} Barnett (1984), p. 36-40; on 1 July 1912, \textit{South China Morning Post} reported rather laconically (p. 2): “Chinese copper cents are no use in Hongkong as of to-day. It will be interesting to watch developments.” The following day, a Chinese throng converged on the Colony’s main post office where, for the last time, Mainland copper cents could be exchanged at a discount for Hong Kong currency. See \textit{South China Morning Post}, 2 July 1912, p. 2.
\textsuperscript{54} For an overview of early Hong Kong banknote issuance — see Pennell (1961), p. 47.
ports. The significance of British banknote issuance in Shanghai lies, therefore, in the provision of a convenient and reliable store of value, which eventually penetrated both the expatriate and Chinese marketplaces.

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One of the most important determinants of capital mobility and market integration in most early-modern economies is the volume and fungibility of equity. In a recent study, Andrea McElderry has shown that several Chinese stock and commodity exchanges had organically evolved in Shanghai by the early 1880s, but remained small, diffuse and largely dormant thereafter.56

What impinged most on equity trade was frequent Court interference in the managerial affairs of listed companies. This interference deterred potential investors, and brought China’s primary stock exchange, the Pingzhun brokerage (est. 1882), to a virtual standstill by mid-1880s.57 Numerous attempts to revive equity markets were made in the 1920s, but these were beset by Beiyang government inability to regulate corporate financial disclosure and competition between various trading groups, shore up investor confidence or enshrine property rights for that matter.58

After its establishment in 1927, the Nanjing government flooded the Chinese stock exchange in Shanghai with high-yield bonds whose proceeds were vital for the GMD’s continued military build-up.59 Between 1927-1935, the domestic debt that was mainly floated as bonds totalled more than 1.6 billion silver dollars, compared with a total of only 612 million dollars in the previous 15 years of Beiyang government tenure. Inevitably, these bonds crowded out what little trade emerged in private equity — only about 2% of Chinese stock exchange capitalisation was attributable to private securities during the early 1930s.60

56 McElderry (2001), pp. 4-7; see also Goetzmann and Koll, p. 48, Figure 1.
Chinese investors sceptical of the government’s ability to honour its bonds were drawn to Shanghai’s foreign-run stock exchange, set up as early as 1891.61 In 1905, the foreign bourse in Shanghai was incorporated under Hong Kong law, primarily listing expatriate treaty-port firms and utilities, tobacco and rubber plantations, coal mines and cotton mills, SMC and MCFC [Municipalité de la Concession Française de Shanghai or gongdong ju 公董局] bonds.62 Like its Chinese equivalents, the foreign bourse was often buffeted by speculative bubbles – but it managed to weather fleeting storms like the rubber stock crash of 1910 and grow fast in the early 20th century.

In other words, Chinese investors’ money fuelled the growth of a foreign bourse that rarely listed Chinese joint-stock companies in the strict sense of the word. Similarly, Shanghai expatriates did not invest in a Chinese bourse that was little more than an instrument for floating domestic public debt — Chinese governments pledged substantive collateral security only against the foreign debt that foreign banks helped them float in the London capital market.

Why didn’t the SMC push for a more integrative equity market comprising both Chinese and expatriate-run firms? For the SMC to have acted along these lines and run the risk of rankling Beijing or Nanjing explicit fiscal incentives would have been required. However, before the mid-1920s Chinese residents of the International (and French) Concession had been willing to pay rates even without executive representation on municipal boards, if only to protect their wealth from government exactions.63 At the same time, taxpayers in Britain — rather than expatriate SMC ratepayers — shouldered most of Shanghai’s onerous maritime defense outlay.

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61 In 1893, the British Commissioner of Customs in Shanghai observed that “...at least 40 per cent of the shares of some foreign companies are held by Chinese...[as well as] a considerable portion of deposits in local banks”. See Murphey (1953), p. 6-7. See also Hong Jiaguan (1989), pp. 136-137; Thomas (2001), pp. 86-91; Zhu Tongfang (1989), p. 38.
63 As early as 1856, the largest single contribution to SMC revenue (SH $ 18,275) was attributed to tax collected from Chinese residents (SH $ 5,400). See Jernigan (1904), p. 399; on Chinese ratepayers’ campaign for representation on SMC – see Kotenev [1968], pp. 40-44; Justice Richard Feetham’s report to the SMC on the future of Shanghai (1932), vol. II, passim. In NLA BRA 2826; on Chinese representation on the MCFC – see Martin (1996), pp. 74-76; cf. Johnstone [1937], pp. 226-243.
This was *laissez-faire* economics in its purest treaty-port form, one where Chinese dependence on — and preference for — foreign institutions was taken for granted too long. As Chapter 5 will show, it was precisely for that reason that the SMC came to be perceived as egregiously impervious to Chinese civic aspirations during the 1920s.

### 2.4 Extra-Territoriality as Coercion-Constraint

If there ever was anything approaching a *designed* (read: preconceived) mechanism of coercion-constraint in Shanghai, this was foreign extra-territoriality. The concept — often abbreviated to ‘extrality’ in the city’s English-language press — was thought to ensure that Western expatriates be immune to prosecution by the Chinese legal system within the confines of Shanghai’s International or French Concession areas, as well as a host of smaller treaty-ports.

Westerners in pre-war China were tried in Consular Courts with each country resorting to its own code of practice. Some European Powers even maintained their own jails in Shanghai, but serious offenders were mostly sent to stand trial and serve sentences in colonial strongholds — the British relied on the legal and penitentiary system of Hong Kong, while the Americans relied on that of the Philippines.⁶⁴

Though the concept had roots dating back to the 14ᵗʰ century, ⁶⁵ ‘extrality’ in China was never spelled out in detail, so as to avoid offending Chinese Imperial sensitivities. Its import was in reality *not* anchored in diplomatic agreements but in the projection of military might and in sufferance on the part of Chinese rulers. This also meant that the concept was fairly pliable. The first British court in China had, for example, been set up in 1833, nine years before the first Sino-British Treaty acknowledging foreign judicial privileges was signed.⁶⁶ Similarly, foreigners had established manufacturing plants in Shanghai long before the Qing formally ceded these rights in the 1895 Treaty of Shimonoseki.⁶⁷

Owing to the lack of juridical clarity, ‘extrality’ remained fraught with potential loopholes throughout the pre-war era. The British adjudicated corporate law in Shanghai in

⁶⁴ Keeton (1928), vol. II, pp. 78-79.
⁶⁵ Morse [1967], pp. 195-197.
conformity with Hong Kong Ordinances, even though the latter often overlooked treaty-port particularities. It was only in 1927, for example, that a specific Order-in-Council “...for regulating the issue of [British] banknotes in China” was promulgated, even though Chinese officials in a few outports had assailed this practice as an abuse of foreign commercial privileges some 15 years beforehand.\(^68\)

Wealthy Chinese businessmen sought to be subsumed under ‘extrality’ by virtue of the privileges it offered. They had first looked at ‘extrality’ as an impromptu safeguard of property rights, but soon discovered that the concept could also imply handsome commercial gains, once they had paid their way into permanent residence in Shanghai’s foreign concession areas. This was mainly because any goods transported from the treatyports and cloaked as ‘foreign’ had better chance of eschewing the full brunt of Likin and other onerous provincial duties, which Chinese firms based in the interior had to absorb.\(^69\)

These unique circumstances persuaded many Chinese businessmen residing in or close to the foreign concessions of Shanghai that the most sustainable course of action was 1. to invest in expatriate treaty-port enterprise, whose immunity to hinterland duties was beyond question, while relinquishing executive powers to foreign boardrooms. Others chose the opposite path: 2. to have their ventures incorporated under Chinese law, firmly hang on to executive powers but risk government interference and lose potential tax breaks. Another options still was 3. to avoid capital markets altogether, and retain a traditional lineage-based structure to conceal taxable wealth.

By far, the ideal course of action was 4. to be granted foreign citizenship by one of the Powers, and operate anywhere in China as a nominally foreign company. However, the Powers were prepared to naturalise but a tiny minority of treaty-port Chinese, and were extremely suspicious of domestic firms operating under assumed foreign identity.\(^70\) To a large extent, then, ‘extrality’ and British corporate law were applicable to Shanghai in terms of \textit{jus sanguinis}. While cases involving foreigners were brought before Consular Courts entirely removed from Chinese legalities, cases involving Chinese were referred to Mixed Courts.\(^71\)

\(^71\) On the jurisdiction of Mixed Courts – see, e.g., Jernigan (1904), pp. 224-228.
Reliable statistics are scarce, but lateral research seems to suggest that options 1 and 3 became the norm among Chinese businessmen. We can infer these patterns from the meagre number of Chinese private firms, which registered with the government or were incorporated under Chinese law during the pre-war era, as William Kirby has shown.\(^\text{72}\) Wang Jingyu had, in turn, first exposed the sheer scope of Chinese investment in expatriate-run companies in the pre-war era.\(^\text{73}\)

In essence, Wang proposed that Chinese entrepreneurs had been the driving force behind countless treaty-port ventures. Though these ventures targeted Chinese clientele, the entrepreneurs were prepared to entrust their ideas, know-how and capital to Western trading houses, if only to garner a foreign halo. The picture that Wang outlined is supported by more recent archival findings: Motono Eiichi has shown, for example, that the Shanghai steam silk filatures set up in 1882 by the renowned trading house Jardine Matheson & Co. had been in fact *entirely* funded with Chinese shareholder subscription.\(^\text{74}\)

Was the fear of Chinese investors of their own government justified? The Qing had certainly left a legacy of trampling private shareholder rights in its seminal industrial ventures, as Albert Feuerwerker has shown.\(^\text{75}\) Predatory government interference in the private sector notoriously worsened during both the early and late Republican eras. The best-known examples were perhaps the two *banking coups* of 1916 and 1935, punctuated by Jiang Jieshi’s [Chiang Kai-shek] blackmail of prominent Shanghai industrialists during his takeover of the city in 1927-8.

In May 1916, Yuan Shikai, the first President of the Republic, tried to shore up the precarious fiscal standing of his regime by expropriating the silver reserves of the Bank of China, and substituting its banknotes with inconvertible currency. What saved the Bank was the fact that its branch managers in Shanghai, where much of the reserves had been stored, refused to comply. The government was unable to close in because the branch was

\(^{72}\) Kirby (1995).
\(^{75}\) Feuerwerker (1980), passim.
situated within the foreign concession area, and the scheme fell through a few months later.\textsuperscript{76}

In 1927, Jiang made a pact with Shanghai's underworld to rid the city of communist sympathisers. To that end, he solicited financial assistance from Chinese factory owners and bankers equally averse to the labour movement. But, as Parks Coble has shown, as soon as he had realised his goal, Jiang ruthlessly turned on his wealthy backers with interminable demands for compensation.\textsuperscript{77}

Perhaps the most grievous GMD disregard for property rights accompanied what was otherwise hailed as a benign move off the silver standard; the success of this move, as part of the fabi reform in 1935, had been predicated on bringing China's principal banks of issue under one umbrella. Yet Jiang used the brewing monetary crisis as pretext for quietly freezing private shareholders' stake in these banks.\textsuperscript{78}

Notably, Chinese modern banking gathered momentum, particularly through the 1920s, when the leverage of central authority was at a low ebb.\textsuperscript{79} At the end of 1925, for example, there were 132 Chinese privately-owned banks with a total paid-up capital of $121 million. By contrast, the 26 state-run and semi-official banks accounted for only $49 million.\textsuperscript{80}

2.5 'Imperialism', 'Colonialism' and 'Semi-Colonialism'

The previous section pointed to several market imperfections in pre-war Shanghai caused by a profound institutional vacuum — a vacuum derived both from the enfeeblement of Chinese central authority, and from SMC inhibitions. This is, of course, not to say that China's economy as a whole would have been better off without the treaty-port input. Much of the literature on the treaty-ports mould has been devoted to exploring its underlying racialism, or has cast it as a thinly-veiled manifestation of imperialism and


\textsuperscript{79} Cheng Linsun (2003), pp. 67-68.

\textsuperscript{80} Cheng Linsun (2003), pp. 42-45.
colonialism, i.e. ‘semi-colonialism’. But when the overall economic implications of the treaty-port mould are at stake, only economic yardsticks should be employed.

Historians of ‘world systems’, at any rate, question whether the treaty-ports mould embodied a British strategy that was truly distinct from outright colonisation, or to what extent it explains Britain’s hegemony in the 19th century. In other words, opinions vary on whether the notions of ‘semi-colonialism’ or ‘imperialism on the cheap’ that are often associated with the treaty-port mould stand for substance or were merely another form of metropolitan coercion.

Gallagher and Robinson initiated this debate some 50 years ago, when they described British colonial policy in the latter half of the 19th century as preoccupied with cost-cutting. They coined the term ‘informal empire’ essentially to describe British designs on late-Imperial China and postcolonial Latin America. To them, the British rationale was one of “...extending control informally if possible and formally if necessary”. The notion that British elites had been primarily concerned with safeguarding free trade and informal hegemony where military intervention was too dear a pursuit is supported by other scholars, most notably O’Brien and Pigman.

It is in light of the onerous outlay of keeping up the colonial ramparts that we should consider the importance of entrepôts like Shanghai and the rich vein of Cobdenite liberalism that impregnated British foreign policy debates from the mid-19th century. British transition toward informal control and the emphasis on free trade contrasted sharply with the mercantilist mood still prevalent across the Channel. In two separate articles, O’Brien and Van der Eng challenged the notion that capital exports to formal colonies could yield ‘supernatural’ profits. Moreover, these scholars expressed serious doubts whether colonialism was vital to the metropolitan economies of either Great Britain or the Netherlands at all.

81 See, e.g., Wood (1998).
82 For a representative ‘world system’ analysis – see Moulder (1977)
84 O’Brien and Pigman (1992), passim.
O’Brien’s conclusion, in particular, echoes the confidential pronouncements that British civil servants and politicians made in the mid-1930s. These pronouncements, which will be presented in more detail in Chapter 5, suggest that Britain’s costly naval presence in far-flung corners of the world may have ultimately served but a thin coterie of City rentier interests. In China, these interests were implacably personified by ‘Shanghailanders’ and ‘Old China Hands’, who were regularly calling for military intervention to reassert British ‘prestige’, but retained much of their wealth in Asia, well beyond the reach of metropolitan taxation.

Christopher Platt tipped the same argument further, when he maintained that the British government effectively distanced themselves from outspoken proponents of informal empire. Rejecting the rationale advanced by Gallagher and Robinson, Platt believed that the two Opium Wars between Britain and China (1839-1842, 1856-1860) had been fairly aberrant incidents in what was otherwise official disdain of financiers calling for British government action to enforce ‘informal empire’ around the world.\(^7\) The *locus classicus* of this argument is Latin America, where Platt identified only one substantive British military intervention during the 19th century.\(^8\) He attributed the gap between a relatively hawkish stance taken by British officialdom on East Asia to its non-interventionist stance on Latin America to the latter’s distance from *Weltpolitik* rivalries.\(^9\)

This argument remains on the perimeters of the present thesis, but for lack of space cannot be treated here in full. Nonetheless, it does call for what little secondary data we can assemble to compare British banking practices in these two ‘semi-colonial’ settings, not least because quasi-foreign banknote issuance was rife in both.

The most authoritative estimates of foreign investment in pre-war China remain D.K. Lieu and C. F. Remer’s respective works.\(^90\) In the late 1920s, Lieu estimated total British investments in China at GBP 149.2 million, with the great bulk attributed to Shanghai and Hong Kong. Banking accounted for only GBP 7.5 million of the total investment, insurance – GBP 31.4 million, and manufacturing – a whopping GBP 60 million. The remainder spread over typical invisible British exports like shipping (GBP 15.2 million), real estate (GBP 10.1 million), trade (GBP 10.9 million), construction (GBP 2.9 million) and public

\(^7\) Platt (1968), pp. 10-11, 266, 288-289.
\(^8\) Platt (1968), p. 323.
\(^9\) Platt (1968), pp. 331-333, 346-351.
\(^90\) Lieu (1929); Remer [1968].
utilities (GBP 2.6 million). Rubber Estates and Mining — two distinct hinterland enterprises — accounted for only GBP 2.8 million in all.\(^91\)

Remer, on his part, estimated British direct investment in China proper in 1931 at GBP 197.9 million. The financial sector, broadly defined, accounted for 12% of the total. Trading firms led the table with 25%, real estate — 21%, manufacturing — 18%, transport — 14%, public utilities — 5%, mining — 2%, and miscellaneous — 3%.\(^92\) Chinese debts are still harder to estimate because of the political and economic fragmentation at the time. Remer estimated Chinese government obligations to British creditors in 1931 at GBP 46.4 million, up by GBP 18 million from 1914.\(^93\) Lieu put the figure at only GBP 4.8 million (December 1925), but his calculus was exclusive of the British share of foreign indemnities, secured loans and the interest they incurred — a total of GBP 92.7 million.\(^94\)

We can now compare these figures with the data available for Latin America. Here, British investment is said to have totalled GBP 179.4 million circa 1880, with a much wider geographical spread than in China.\(^95\) Three decades later, the total more than quintupled, with British investment estimated in 1913 at GBP 999.2 million, of which GBP 316 million were invested in various Latin American government bonds, and GBP 457 million in railways. Banking claimed a bottom-end estimate of GBP 18.5 million.\(^96\)

Clearly, British financial stakes in Latin America were, on the whole, much higher than in Shanghai, Hong Kong or China as a whole. The two sectorial exceptions may have been banking and manufacturing. British direct investment in Latin America alone may well have exceeded British investment in China and total Chinese foreign debt combined. This,

\(^91\) Lieu (1929), pp. 115-116, Table 39.
\(^92\) Remer [1968], p. 397, Table 14.
\(^93\) Remer [1968], p. 403, Table 15; for 1914 — see p. 361, Table 4.
\(^94\) Lieu (1929), p. 37, Table 14; for corroboration purposes, it is worth noting that Douglass Paauw estimated total Chinese foreign debt, including railway bond repayments, at C$ 1.72 billion — or approximately GBP 98.8 million — in 1937. See Paauw (1950), Table 7.
\(^95\) Rippy (1959), p. 25, Table 3.
\(^96\) Rippy (1959), p. 67-68; for corroboration purposes, it is worth noting that Randall estimated British investment in Argentina alone at GBP 22.6 million circa 1875. By 1913, however, total British investment in Argentina had shot up to GBP 479.7 million, with railways accounting for 46% and manufacturing for only 4% thereof. See Randall (1977), vol. 2, p. 215, Table 7.17.
in turn, seems to bear out Platt’s thesis that geopolitical factors rather than economic ones explain Britain’s comparative heavy-handedness in East Asia.97

How did this state of affairs reflect on British overseas banking? The figures cited above suggest that the banking sector made up a fairly small share of British investment in either region – approximately GBP 15 million circa 1910s.98 The figure may help us understand why Whitehall had taken relatively little interest in regulating quasi-foreign banknote issuance, as will be shown in Chapter 3.2. Its main concern was to safeguard trade with the metropolis and foreign government debt repayment.

This dissertation argues that potentially deleterious effects of overseas banking on the host economy should be sought out in terms of capital allocation, i.e. funnelling local wealth to fund foreign-owned ventures. In the monetary sphere, on the other hand, quasi-foreign notes often provided the only reliable means of payment. There was no coercive dimension to this practice but — as Latin American experiments with central banking proves — one of institutional maturation.

Regrettably, the body of literature on British banking in Latin America is much less detailed than the one on British banks in Asia. Nonetheless, cursory comparison of the literature immediately points to common ground, as well as key differences. The most salient difference between the two regions is arguably the absence of comprador-like intermediaries in Latin America, pointing to a higher degree of interpenetration between local and foreign-owned business there.99

Banking made up a relatively small proportion of overall British investment in both regions, but was one of the most remunerative during the pre-war era.100 Crucially,

97 Another tentative explanation for Britain’s heavier military presence in East Asia may, of course, be the fact that China had traditionally been promoted as a huge untapped market. In reality, predictions about the commercial potential of the China trade proved overly optimistic.

98 See also Jones (1993), Appendices 4 and 5.


observers in both places noted that British overseas banks relied, to a large extent, on local deposits to underwrite loans to foreign trading firms. Implicit in many of these observations was the allegation that the British banks depleted indigenous wealth that could have funded ‘latecomer’ industrialisation, and that this perpetuated the status of local economies as producers of low-value commodities.\textsuperscript{101}

In the monetary sphere, similarities between the two regions are more evident. In both cases, British overseas banks played a reformative role, against which we can weigh up the travails of modern state-formation and fiscal discipline. In both cases, powerful British banks shunned local banknotes when overprinting was suspected until, ultimately, local politicians were forced to temper their inflationary proclivities. In both cases, local banks could not effectively compete with British banks until they were infused with central government resolve to see the foreign sector of the economy minimised.\textsuperscript{102} Equally importantly, quasi-foreign banknote issuance receded in Latin America sooner than in China, because the postcolonial polities there were more cohesive, and devoid of Shanghai-style extra-territorial enclaves.

\textbf{2.6 Banking, Industrialisation and Nationalism in Shanghai}

The notion that insufficient bank credit to local entrepreneurs impeded China’s industrialisation has, of course, a ‘Gerschenkronian’ ring to it.\textsuperscript{103} It has been alluded to by some scholars, but vehemently rejected by others.\textsuperscript{104} In one of the most notable contributions to Gerschenkronian theory, Daniel Verdier has recently argued that in European countries where the \textit{praxis} of central banking emerged only in the late 19\textsuperscript{th} century — commercial banks that had been granted note issue prerogatives were reluctant to invest in industrial ventures because they required a higher degree of liquidity to cover

\textsuperscript{101} On deposits with British banks in Latin America – see Jones (1977), pp. 18, 27, 49; on China – see Hou (1965), pp. 52-58.

\textsuperscript{102} On China – see Chapter 5; on British banknote issuance in Latin America – see Jones (1977), pp. 28-30, 32, 38.

\textsuperscript{103} In his classic study of German banking, Alexander Gerschenkron was the first to spell out an inexorable linkage between industrialisation and bank credit across Continental Europe. He stressed that the later the drive to industrialisation started, the more important the role of banks and the state in facilitating credit became. See Gerschenkron (1966), pp. 353-364.

\textsuperscript{104} For proponents of this view – see Zhang Naiqi (1936), pp. 315-317; for a critical view – see Cheng Linsun (2003), pp. 82-84; cf. Wright (1984), pp. 18-23.
their short-term liabilities.\textsuperscript{105} This study will draw on Verdier's proposition in a bid to determine what role, if any, overseas banks of issue played in China's industrialisation.

The following section will, however, reframe the issues involved, since one finds general disagreement among historians and theorists on the vitality of bank finance to the process of industrialisation. The fundamental question posed here is simply one of resources and uses; if the treaty-port mould reproduced a net outflow of capital from Chinese into expatriate hands, then it was probably compromising the ability of the Chinese sector to undertake long-term projects by itself.

As alluded to above, no comprehensive attempt has been made to juxtapose the ethnic makeup of British bank liabilities and assets in Shanghai. Similarly, we do not know the volume of foreign bank shares subscribed by ethnic Chinese,\textsuperscript{106} so as perhaps to compare it with Chinese boardroom representation, or their share of staff remuneration. On the other hand, comprehensive surveys of Chinese industrial ventures in pre-war Shanghai clearly suggest that very few relied on credit from foreign — let alone British — sources in the early stages.

In the critical stage of formation, Chinese entrepreneurs invariably raised capital through match 杠股 or the sale of a limited number of preference shares to colleagues and family-relatives. In subsequent stages, some entrepreneurs cultivated close links with Shanghai's moneyshops.\textsuperscript{107} Extensive comprador investment in private industrial ventures would have pointed to ample sources of foreign finance. But, perhaps tellingly, compradors were the driving force behind a minority — albeit the biggest and most enduring — of Shanghai's private industrial ventures.\textsuperscript{108}

Recent work by business historians tends to support this pattern. Sherman Cochran has shown, for example, that Rong Zongjing 荣宗敬 (1873-1938), one of China's best known


\textsuperscript{106} The closest thing to such juxtaposition is W.A. Thomas' review of HSBC share register data – see Thomas (2001) pp. 78-83. His findings suggest that most of HSBC's major shareholders in 1870s Shanghai were European.

\textsuperscript{107} Shanghai minzu ji qi gongye (1979), vol. I, pp. 459-466; Shanghai minzu xiangjiao gongye (1979), pp. 85-114. See also discussion in Chapter 4.4.

\textsuperscript{108} Chen Zhen (1957), vol. I, pp. 38-53.
and most intrepid entrepreneurs in the pre-war era, began contracting loans from Japanese banks only in 1917, when his business empire had already laid down roots. We have some evidence he contracted British bank loans in 1934, as HSBC was then one of mostly Chinese bank creditors that temporarily foreclosed on his Shenxin Cotton Mills.\textsuperscript{109}

Japanese and European banks, which were latecomers into the Chinese market, may well have been more ready to engage the domestic sector than their British competitors. In his portrayal of commerce in late-Imperial Tianjin, Kwan Man Bun has shown, for example, that the foreign banks, which helped the city’s salt merchants tide over losses in the wake of the Boxer rebellion (1899-1901), included the Yokohama Specie Bank, the Banque Russo-Chinoise, the Deutsch-Asiatische Bank and the Saigon-based Banque de L’Indochine.\textsuperscript{110}

Tim Wright, who has written the most comprehensive account to date on coalmining in pre-war China — one of largest and most capital-intensive industries at the time — cited several examples of Russian, Japanese, German and Belgian loans to Chinese-owned mine operators or Sino-Foreign joint ventures.\textsuperscript{111} On the other hand, Wright recorded loans from British sources only in such cases where effective ownership and executive control of the mines had firmly lain in British hands.

Paradoxically, there is ample evidence to suggest that domestic financial institutions had lent profusely to expatriate-run ventures even when foreigners were not among their main shareholders. The most clear-cut example is The Imperial Bank of China \textit{[IBC] or Zhongguo tongshang yinhang} 中國通商銀行, 73\% of whose 1901 loan portfolio was advanced to expatriate firms.\textsuperscript{112}

Did British bank lending strategy vis-à-vis the domestic sector turn potential clients away? Ishii Kanji has shown that during the 1910s the Japanese-run Yokohama Specie Bank relied heavily on deposits advanced by ethnic Chinese and Indians in Shanghai and Bombay respectively;\textsuperscript{113} studies of the US-run International Banking Corporation similarly indicate

\textsuperscript{109} Cochran (2000), pp. 118-146.
\textsuperscript{110} Kwan Man Bun (2001), pp. 138-144.
\textsuperscript{111} Wright (1984), p. 122, 124-125.
\textsuperscript{112} Huang Jianhui (1994), pp. 87; on Chinese bank loans to expatriate firms – see also \textit{Zhongguo di yi jia yinhang} (1982), p. 142.
\textsuperscript{113} Ishii (2002), pp. 122-124.
that its Chinese client base was very large. Based on an Inspector’s Report from 1912, Professor Shizuya Nishimura has concluded, in turn, that ethnic Chinese advanced much of HSBC’s fixed deposits in the outports, but their contribution was considerably less significant in the all-important branch of Shanghai.

Pending more archival evidence, this series of findings does not easily lend itself to interpretation. Yet, it would seem safe to assume that the Chinese clientele of British banks in the 19th century was large. On the other hand, the consistent growth of modern Chinese banks, as well as Japanese and American financial institutions, in early 20th-century Shanghai suggests a shift in financial patterns. As the following chapters will show, this shift was inextricably linked to the surge of Chinese nationalism.

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The changing perceptions of, and mobilisation against, foreign banks is one facet of Chinese nationalism that has not commanded the attention it deserves from historians. By and large, the few scholars who seriously tried to assess the economic impact of popular mobilisation against expatriate commercial interests in early 20th-century China, have almost invariably relied on Remer’s classic Study of Chinese Boycotts. Percipient as this work may have been, it was published in the 1930s, having recourse to neither the retrospect nor the archival sources that scholars can nowadays draw on. Indeed, Remer himself was acutely aware of the provisional nature of his findings, as well as the inherent limitations of the Chinese Maritime Customs data, which he had tapped.

His account focused on trade flows between China and boycotted Powers to the neglect of iconic foreign-owned companies operating or manufacturing within China.


115 Nishimura found that by 1913 HSBC fixed deposits in Tianjin and Shanghai had made up as much as 82.9% and 69.2% of the local balance sheets respectively. In Tianjin, much of these deposits had been drawn from Chinese firms and individuals. See Nishimura (1994), pp. 25-27

116 Between 1925 and 1934, total loan advances by the 28 Chinese-run banks in Shanghai increased by 195%; deposits by 251%; the combined note issue by 196%; cash reserve by 143% and capitalisation by 123%. See Lieu (1936), p. 156.

117 See Remer (1933); for a more recent analyses that is heavily reliant on Remer – see, e.g., Hou Chi-ming (1965), pp. 150-152; Fewsmit (1985), pp. 80-81; Jordan (1991).

Interestingly, two monographs on the anti-American movement, which had broken out in Shanghai in 1905 following the Asian Immigration Exclusion Act, have been released in close proximity recently. The respective authors, Wang Guanghua and Sin Kiong Wong, still dwell on Remer rather than on corporate archives when discussing the economic impact of the movement. Yet, both authors ably highlight crucial aspects of Chinese anti-foreign agitation that fall beyond the purview of this thesis. Namely, the ways in which student associations radicalised merchant guilds; the ways in which ad hoc periodicals were used to fan the sense of iniquity; and the ways in which virulent anti-foreign imagery was bandied about to deter Chinese ‘collaborators’. These have been salient properties of not just the anti-American campaign of 1905; some of the same tactics and rhetoric were directed mutatis mutandis against the Japanese in 1919, and used with a vengeance against the British during 1925-6.

Sin Kiong Wong, in particular, explains how demeaning caricatures of ‘cold-blooded’ (lengxue 冷血) dogs and turtles were invoked to distinguish the allegedly callous Americans and their ‘collaborators’ from the victimised or ‘hot-blooded’ (rexue 熱血) Chinese. That much the same imagery was later directed against British and Japanese firms is manifest in books published by Wong’s PhD advisor, Jeffrey Wasserstrom, Sherman Cochran and others.

As the next chapter will show, this anti-foreign climate was also manifest in British bank performance between 1919-1926.

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120 Wong Sin Kiong (2002), pp. 134-137; it should be noted that the anti-foreign imagery that was often instigated during the Republican era did by no means preclude expressions of admiration for Western aesthetics in the popular media – see, e.g., Ho, Virgil K.Y. (1991).
121 Wasserstrom (1991), Photo Addendum to Chapter 4. Wasserstrom believed that Shanghai handbills calling for the boycott of waiguo chaopiao 外國鈔票 had referred to “foreign currency”. In fact, these handbills were targeting quasi-foreign banknotes. Images of “foreign turtles” in the same Addendum pun on the homonymous expletive ‘foreign devils’ (yangguī 洋鬼); Cochran (1980), passim; on student anti-foreign activism in Shanghai – see also Perry, (1993) pp. 81-87; on the evolution of student consciousness in Shanghai from non-violent cosmopolitanism prior to 1919 into pronounced anti-foreignism during 1925 – see Schwarcz (1986), pp. 145-176.
2.7 Conclusion

This chapter has drawn on a wide range of lateral sources as well as on newly-published studies in a bid to present a broadstroke sketch of the Shanghainese pre-war economy. To avoid oversimplification, the chapter has consistently pointed in the direction of quantitative data uncovered by recent scholarship, wherever these had some potential of clarifying gaps in our understanding of the city’s economic fabric of life. Particular emphasis was put on the function of characteristic Shanghainese institutions, and on the ways in which the city’s economy differed from either that of the Chinese hinterland or other global settings.

In economic terms, the ‘allurement’ of Shanghai during the pre-war era was found to be not so much predicated on the (selective) introduction of Western administrative and legal institutions. The latter appear, on balance, to have played only a negligible role in generating fiscal revenue for the British Empire, and were otherwise much less coherent than, for example, in Hong Kong. Rather, Shanghai seemed to have attracted British merchants, financiers and entrepreneurs because it provided easy and secure access to China’s wealthiest provinces, while retaining a distinct laissez-faire environment.

Chinese people of means appear to have continually converged on Shanghai not because Mixed Courts necessarily administered ‘Western-style’ justice, equity or civil liberties, but because the city’s extra-territorial status transformed it into a ‘Chinese government tax-free zone’ of sorts; Shanghai’s laissez-faire environment probably minimised the perceived risks of voracious taxation on the part of the foreign municipal administration; it enabled Chinese entrepreneurs to compete in domestic markets in preferential foreign garb, but fell short of consolidating capital markets. The same environment failed to produce uniform municipal currency or alleviate shroffing costs — this vacuum was partly filled by a host of foreign and domestic bank notes. The following chapter will expound on one of these foreign banks: The Chartered Bank of India Australia and China.
Chapter 3
The Chartered Bank and Its Note Issue, 1864-1939: Comparative Aspects

Drawing on recently declassified archival material, this chapter explains the long-term banknote circulation patterns of what, by the 1910s, had become one of the leading British financial institutions in East Asia: The Chartered Bank of India Australia and China [CBIAC].\(^1\) The bank’s circulation figures will then be used as a preamble to a broader discussion of the role that British and other foreign bank notes played in the Chinese economy before World War II. By assessing quantitative evidence, linkages are found between the bank’s principal branch circulation volumes, the political climate in China and monetary evolution in East Asia. The argument advanced is that Hong Kong was politically crucial to the overall growth and durability of British overseas bank note circulation, while emergent popular movements and government reform severely impinged on local circulation volumes on the Mainland during the 1920s.

The chapter will describe the progression of CBIAC’s corporate identity and mode of operation in comparison to other British banks (3.1). Section 3.2 will analyse CBIAC’s overall note circulation pattern in East and Southeast Asia. The third, fourth and fifth sections (3.3, 3.4, 3.5) will discuss CBIAC’s note issue in China proper, and will draw comparisons with the colonial setting of British banknote issuance in Hong Kong. Section 3.6 will foreground the 1919 boycott of Japanese bank notes in Shanghai as a prequel to the predicament of CBIAC and other British banks in 1925-6. Finally, an attempt will be made to assess what CBIAC banknote circulation figures might tell us about the history of British banks in Asia (3.7).

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\(^1\) The CBIAC local branch balance sheets on which this chapter is based have only recently been opened to public scrutiny, as part of much wider collection deposited in the Guildhall Library, London, in 1989. More qualitative materials from this collection are not expected to be released soon. On the fate of other Chartered Bank historical records – see Freeth (1991).
3.1 CBIAC and Other British Banks Compared

CBIAC was established in the City of London in 1853 through the provision of a Royal Charter similar to the one given in 1851 to the first British overseas bank in Asia — the Oriental Banking Corporation. The original CBIAC Charter delineated the permissible scope of operations for limited-liability entities, but had to be reaffirmed by Supplemental Charters every 10 odd years. Although the bank’s full name suggested large territorial dispersion, it chose to focus on South and East Asia and was soon to become one of the dominant overseas banks operating in British India. The bank’s decision to localise in Asia followed what seemed like adverse political climate in Australia where, by the mid-1850s, the colonial government was less receptive toward new London-based banks.

Officially, CBIAC abridged its title to become the Chartered Bank only in 1956, when regional designations had already lost much of their appeal. It then merged with the Standard Bank, one of the leading British overseas banks in South Africa, to form the Standard Chartered in 1969. Alongside HSBC, it is the only European bank with a name that still bears some testimony to the era of treaty-port finance.

The driving force behind the expansion of early British overseas banks into East Asia — known collectively at the time as the Eastern Exchange Banks — was increasing opposition in early and mid-19th century England to the tight grip of the East India Company [hereafter EIC] on the finance of the lucrative opium trade. The monopoly rights that EIC retained in India and China were revoked in 1813 and 1834 respectively, and it was to lose much of the exchange bill traffic between Asia and London soon afterwards.

During 1829-1834, leading Calcutta agency houses with which EIC had been associated, such as Palmers, Alexanders, Colvin & Co. and Cruttenden & Co., were succumbing to competition from new smaller trading firms that took advantage of the breakdown of monopoly rights to undercut mercantile banking business. Financiers in the City of London, colonial policy makers and local Indian mercantile groups then identified exchange banking between India and China as pristine ground for investment.

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2 CBIAC’s first three supplemental charters were granted in 1861, 1874, and 1884 – see United Kingdom Public Record office [hereafter PRO] TS 18/434.


Nevertheless, the absence of effective limited-liability laws overseas, as well as persistent 
EIC obstructionism, frustrated any progress. By the 1850s, small Anglo-Indian co-
partnerships involved in exchange banking had set up branches in Guangzhou and Hong 
Kong and operated there without explicit official patronage and, initially, without a charter: 
the Agra Bank, the North Western Bank of India and the Bank of Western India.\[^6\]

This *fait accompli* paralleled initiatives by well-heeled groups in London to lobby the 
government for a limited-liability status in the form of a Royal Charter, which was first 
given to the Oriental Bank in 1851 (successor of the Bank of Western India), and later to 
CBIAC, the Mercantile Bank of Bombay and the HSBC. Chartered and non-chartered 
banks alike sought to capitalise on the thriving opium trade between British India and 
China by selling bills drawn on their Indian branches to China-based importers of the 
narcotic. The silver proceeds could then be used to purchase discounted sterling bills from 
exporters of silk and tea, with which the Indian branches could cover their drafts on 
London.\[^7\]

Yet the first generation of Eastern Exchange Banks disintegrated by the turn of the century. 
In 1866, there had nominally been 11 foreign banks operating in Hong Kong — The 
Oriental Bank, HSBC, CBIAC, The Chartered Mercantile Bank of India, London and 
China [CMBILC], Comptoir d’Escompte, the Agra Bank, the Commercial Bank of India, 
Asiatic Bank, the Bank of Hindustan, The Bank of India, the Central Bank of Western 
India. Within a year, the last six went into liquidation, leaving behind important client 
accounts that were quickly taken over by the CMBILC, CBIAC and above all the newly 
formed Hong Kong Bank, to be known later as HSBC.\[^8\]

This trail of bankruptcy was largely the result of the Overend Gurney crisis in the City of 
London. The failure of this pivotal clearing bank was one of the most notorious financial 
failures in Victorian Britain.\[^9\] It set off a chain reaction right across the City, because

\[^6\] Limited liability provisions were enacted in India only in 1860 — see Jain (1929), pp. 142-146; on the 
evolution of the Agra Bank’s legal status — see summary by Orbell and Turton (2001), pp. 48-49; The Bank of 
Western India opened its Hong Kong and Guangzhou branch as early as 1845, closely followed by its 
Shanghai branch (est. 1847) — see Ding Richu, vol. II, p. 62.


\[^8\] Baster (1934), p. 147; The Bank of India may have not actually commenced business — see Orbell and 

Overend Gurney had been one of the most important clearing banks on which financial institutions — including a large number of overseas banks — depended whenever they needed to discount drafts. The clearing bank stopped payment in May only a year after it shed its old Quaker family image to register as a joint-stock firm. The circumstances invited rumours about the founders’ motives in floating the bank, while precariously diversifying into long-term investments that were well beyond the core business of discounting exchange bills. Ultimately, the new shareholder acrimoniously dissolved Overend Gurney, having to settle approximately GBP 11 million in debt, owed in part by now-defunct overseas banks.\(^{10}\)

In 1884, the Oriental Bank failed too. In this case, the prime factor was not a third party but the bank’s over-ambitious distribution of agencies, which aimed to bridge numerous currency zones from Europe to Australasia but thinned out cash reserves in principal branches. One contemporary opined that the Oriental Bank had been “reckless” in its pursuit to pile up business in every corner of the world.\(^{11}\) The downfall of the Oriental Bank heralded the second phase of exchange banking in East Asia, during which more regional specialisation was introduced. Henceforth, the British Treasury subjected note issues by private British banks in Asia to more scrutiny because, at the height of its payment crisis, the convertibility of the Oriental Bank’s notes in Ceylon, Burma and Mauritius had to be guaranteed by the colonial governments concerned in order to stave off wider financial implications.\(^{12}\)

For the Exchange Banks, mobilising funds in Asia by issuing notes and accepting deposits was an imperative from the very outset because, as indicated above, their charters precluded similar activities in the UK. CBIAC, for example, was not permitted to undertake any retail banking activities in London until 1909, and had to refer clients to its acting agent, the City Bank, whenever withdrawals were made from Head Office current accounts.\(^{13}\) Worse still was the toll that international currency fluctuations were taking on the Eastern Exchange Banks’ stock, which was usually subscribed in gold-based pound

\(^{10}\) On the liquidation proceedings of Overend Gurney – see the Bankers’ Magazine vol. 26 no. 2 (1866), pp. 848-863, 1132-1138; King, W.T.C. (1936), pp. 238-256.


\(^{12}\) The Oriental Bank’s total liabilities in December 1883 amounted to 11.25 million pounds, of which the note issue made up more than 6% – see Bankers’ Magazine vol. 44 (1884), p. 664-670.

\(^{13}\) Mackenzie (1954), p. 146.
sterling, but employed throughout silver-based Asia. While shareholders expected to net a proportionate amount of dividends in pounds, local branch operations and attendant profits were denominated in silver currencies that were rapidly depreciating against gold as from the 1860s.\textsuperscript{14}

CBIAC General Manager during 1871-1892 was J.H. Gwyther. Like other staunch bimetallists at the time, he failed to pre-empt the decline in the gold price of silver by not reining in capital flow toward Asia. Only in 1885 did CBIAC head office recall all liquid funds from its Asian branches in order to strike a balance between gold and silver assets. But despite repeated bimetallist campaigns in England, the price of silver had deteriorated by 1887 so much that Gwyther was compelled to order an adjustment of all remaining silver assets in the East to their exchange value in gold in order to avoid further capital write-offs.\textsuperscript{15} The balance sheets of the bank’s Shanghai branch reveal, however, that except during World War I when silver prices were rising, the bank’s internal exchange rate continued to understate the fall in asset values. This is illustrated in Figure 3.1 below.

\textsuperscript{14} Triffin (1985); Van der Eng (1999); Yokouchi (1996), pp. 171-173; for CBIAC’s perspective on currency fluctuations – see Mackenzie (1954), pp. 110-112.

Figure 3.1
CBIAC vs. Shanghai Market Silver Exchange Rate, 1872-1932
Unit: Gold-based GBP (decimalised) for 1 Haiguan Silver Tael

Source: The CBIAC exchange rate is calculated from its balance-sheet collection in Guildhall Library [hereafter CBIAC GL] Ms 31519; Shanghai Tls. were converted to Haiguan Tls. based on 0.897 parity – see Morse [1967], pp. 170-173; average market rates are based on Hsiao Liang-lin (1974), pp. 190-192.

Polemics between monometallists and bimetallists were one of the salient characteristics of English economic thought in the late 19th century. It was only after the base of India’s currency switched from silver to gold in 1898 that the bimetallist cause died out. Gwyther and several CBIAC directors were enthusiastic members of the Bimetallist League, which tried to promote an international concord whereby silver could be re instituted as part of the money supply in the West.16 This cause was largely championed by British exchange bankers and textile mill owners, who were convinced that an overvalued gold sterling would disrupt British exports to India. But their views did not sway the Treasury, which held that recourse to silver would blemish the stability of British currency and London’s position as the hub of international finance17.

17 For two somewhat different interpretations of the Bimetallists’ political agenda – see Green (1988) and Howe (1990).
At the root of the depreciation in silver prices was an ongoing spate of events, which tumbled the global metallic equilibrium. Silver and gold discoveries in Nevada, California and West Africa during the mid-19th century altered bullion stock ratios, triggering off a chain-reaction, which saw Germany, Scandinavia, Holland and the Latin Union going off silver as a monetary base one after the other. Attendant monetary tremors were equally felt in East Asia, prodding Japan to re-base the yen on gold at the turn of the 20th century, in order to be on equal footing with her Western trading partners.

More pertinently, the depreciation dealt the ultimate blow to those of the first generation of Eastern Exchange Banks that had survived the Overend Gurney crisis. It practically left a badly-affected CBIAC to contend with HSBC (est. 1865) for mercantile business in East Asia. The New Oriental Bank Corporation, a short-lived venture, which had carried over from the Oriental Bank after the loss of its charter, floundered in 1892. The Chartered Mercantile Bank of India, London and China also lost its charter [CMBILC], but narrowly survived as a new reconstructed entity on the sidelines of treaty-port finance — The Mercantile Bank of India [MBI]. Many overseas banks in other parts of Asia were affected too; even the semi-official Imperial Bank of Persia, which had close links with HSBC, had to write off a third of its capital by 1894.

HSBC was the only British bank operating in Asia that could partly bypass the depreciation of silver, thereby gaining momentum against its rivals. This was due to two crucial factors. Firstly, HSBC was incorporated in Hong Kong with much of its stock already subscribed in silver and employed locally. Secondly, as the primary British creditor to the Chinese Imperial Court, HSBC could indemnify itself against silver depreciation by securing gold loans on an increasing proportion of China’s silver-based tax revenue. Consequently, HSBC was somewhat less exposed to metal price fluctuations than its smaller competitors, which in turn were almost entirely dependent on exchange bill flows between Europe and Asia. By the same token, other banks could not partake of the close ties that HSBC nurtured with the British diplomatic establishment in order to bolster its bargaining power.

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18 For a concise overview of contemporary bullion movements – see Triffin (1985); for the CBIAC perspective on currency fluctuations – see Mackenzie (1954), pp. 110-112.
20 In the late 19th century, nearly half of HSBC’s shares were traded in the Shanghai and Hong Kong bourses – see Jones (1990), p. 32.
21 China’s tax revenue was, during that period, largely extracted through the Maritime Customs. This establishment was administered for the Chinese Imperial Court by British subjects, who were generally on good terms with HSBC executives – see e.g. King, (1987), vol. 1, pp. 86-87, 538-541, 547 – 553.
vis-à-vis the Chinese officialdom, and were mostly excluded from Chinese state loans before World War I.\textsuperscript{22}

These inherent advantages were compounded by managerial prudence. To be sure, HSBC did lend token support to the bimetallist lobby, but it seldom let this agenda impose sanguine expectations of an imminent reprise in silver prices.\textsuperscript{23} Unlike other exchange banks, HSBC was to remain at all times 'on an even keel'. Essentially, this managerial jargon meant that sources and uses would always be kept level in any given currency zone. Thus, HSBC sterling deposits in London were never to exceed outbound sterling bills sold by branches in Asia to importers of British goods. Similarly, when expansion of business potential in Asia called for more resources to be allocated from Head Office, HSBC managers usually chose to retrench or raise capital locally rather than solicit more sterling deposits.\textsuperscript{24}

By the late 19\textsuperscript{th} century, the special connections that HSBC had nurtured with British officialdom in East Asia paid handsome dividends. They effectively kept the involvement other British banks, most notably that of CBIAC, in Chinese government loans to a minimum.\textsuperscript{25} CBIAC managers had initially been averse to requests for credit from Chinese officials, but when they later showed interest in financing China's Boxer indemnity (1901) and a provincial railway line in Hubei (1905) they were promptly rebuffed by the Foreign Office. CBIAC continued to be marginalised in state loans to the chagrin of its executives in China, who thought that the country was on the eve of industrialisation following the establishment of the Republic in 1911. The bank ultimately came to terms with its secondary position in the region, and helped forge an international consortium of Western banks around HSBC that would negotiate new loans with the Republican government \textit{en bloc}.\textsuperscript{26}

CBIAC and MBI's secondary status in China was also reflected in a branch network that trailed far behind HSBC's strong visible presence in Hong Kong and the treaty-ports. CBIAC was conceived in London and its locus of power gradually gravitated towards

\textsuperscript{23} King (1987), vol. I, p. 400.
\textsuperscript{25} Edwards (1987), pp. 15-16.
Southeast Asia,\textsuperscript{27} while the Mercantile Bank had evolved from a Bombay-based Anglo-Indian partnership that leveraged itself to enter exchange banking between India and China, but remained firmly anchored in South Asia. Both banks were managed from London, whereas HSBC chose to keep its head office in Hong Kong ever since it was set up by the Colony’s most prominent agency houses, e.g. Dent & Co., Jardine Matheson & Co. and the ubiquitous Sassoon family.

If constricted in China, CBIAC had considerable leeway in Malaya where it too enjoyed a certain degree of Foreign Office patronage.\textsuperscript{28} As one of the leading foreign banks in Southeast Asia, CBIAC was instrumental in funding British colonial forays into tin mining and rubber plantations, and was the first to open agencies in Taiping and Kuala Lumpur (1888), followed by Klang (1909), Seremban (1910), Melaka (1910) and Ipoh (1912). Typically, such forays tapped pre-existing Asian networks already engaged in mining.\textsuperscript{29} At the same time, Europeans followed overseas Chinese lead in introducing rice milling, which rapidly transformed Burma, Siam and Cochinchina from subsistence rural economies to a regional grain basket. By the turn of the century, intra-Asian rice exports soared fivefold to over 4 million tons annually, as foreign banks in Southeast Asia were funneling capital to cultivators via Chinese or Chettiar mediation.\textsuperscript{30}

Yet CBIAC operations in Southeast Asia had to accommodate the consequences of competition by an increasingly vigorous Chinese banking sector.\textsuperscript{31} Overseas Chinese firms began to complement foreign banking hegemony in the region from the 1920s, with family-owned modern enterprises like the Ho Hong, Chinese Commercial Bank, Overseas Chinese Bank and Sze Hai Tong setting the tone. Such banks usually expanded by partaking in the

\textsuperscript{27} Between 1887-1913 CBIAC total liabilities averaged GBP 1.28 million in Singapore alone, compared with 1.22 and 1.12 million in Hong Kong and Shanghai respectively. See CBIAC GL Ms 31519/5-30; cf. Nishimura (2004), Part 2, pp. 9-11, 15-19.
\textsuperscript{28} In contrast to Hong Kong, HSBC and CBIAC had an equal share of colonial government business in the Straits Settlements – see, e.g., Collis (1965), p. 93.
\textsuperscript{29} Export of tin from Southeast Asia to India probably began in the 5\textsuperscript{th} century by Orang Asli prospectors, and was taken over by Chinese migrant labour in the early 19\textsuperscript{th} century under colonial auspices – see Drabble (1989), p. 12-17, 107-111.
\textsuperscript{31} In December 1926, for example, up to 61\% of the current account balance CBIAC’s Penang branch kept with other financial institutions derived from Overseas Chinese Banks. CBIAC inter-bank credit balances were much less dominated by Chinese banks elsewhere during the same period. This ratio stood at 8.5\% in Hong Kong and 6\% in Hankou for example. See CBIAC GL Ms (31519) 84-89; cf. Brown (1990), p. 179.
remittance volume of overseas Chinese communities to the Mainland, amounting to 421-650 million silver dollars annually.32

Asian and British financial institutions have always been more closely knit in Malaya than in China due to the nature of mining and revenue farming in the Southeast Asian interior, which critically depended on migrant labour influx. In contrast to the Chinese treaty-port paradigm, CBIAC managers in Malaya were much more receptive toward secondary money lending and business ventures undertaken by Asians. Both CBIAC and MBI formed lasting working relationships with Chettiars in Southeast Asia that were based on the hundi scrip system, and bore a striking resemblance to the contemporary Shanghainese zhuangpiao. Shanghai money shops, however, fell short of channelling foreign bank capital to farmers and — unlike the Chettiars in the Southeast Asian setting — did not mortgage crops. Relationships between Chettiars and British banks in Southeast Asia were also more egalitarian than in Shanghai: local confidence in CBIAC was often determined by Chettiar willingness to accept their notes during the 1920s.33

More generally, British overseas banking could preserve its lead over other foreign banks in Asia until the 1920s largely because of London’s preeminence as the number one clearing hub in the world, and because US banks had been preoccupied with Latin America until the 1910s; US multinationals were latecomers into Southeast Asia and the Chinese treaty-ports. Although they gradually became leading creditors elsewhere in the world, American financial institutions kept a modest regional presence outside the Philippines before World War I.34

3.2 The CBIAC Note Circulation Pattern

Note issuance was to complement resource accumulation through local deposit acceptances in the Asian branches of overseas banks, and through discounting export drafts flowing along the trade routes between Britain, India and China. This triangular traffic entrenched Britain’s economic supremacy in the later half of the 19th century, whereby Chinese silk and tea exports to Britain would be essentially financed by Indian-grown surplus opium, or

by American-produced bullion. India, in turn, absorbed British manufactured goods, particularly factory-spindled textiles, to offset British trade deficits with continental Europe and the Americas.

One of the principal attractions of overseas banking in the eyes of financiers in the City of London during the mid-19th century were the comparatively high interest rates prevalent in East Asian entrepôts and the Australasian dominions. Note issuance was arguably one of the most convenient ways of realising quick gains from such market conditions, because note bearers provided the banks with commensurate interest-free bullion that could be turned into high-yield short-term loans. At the same time, banknote issuance was important as a source of working capital for newly-established overseas banks because attracting fixed-term deposits in the dominions, colonies and concession areas took years, and was hampered by competition from traditional financial institutions.

In the 1830s banks of issue across the British and French colonial Empires were often more profitable than mercantile banks. East Asia was particularly appealing to British bankers, since private bank note issuance at home was progressively phased out by the Bank of England, and since the semi-official Presidency Banks were assuming a monopoly on paper money through much of the Indian subcontinent during the 1870s. Unlike their British counterparts, French overseas banks rarely had to apply for supplemental charter renewal and normally enjoyed monopolistic legal tender benefits in colonial possessions. However, British and French banks often shared similar charter guidelines relative to their note issues: a minimum of 1/3 bullion reserve against notes was considered elementary in Europe during much of the 19th century. Notably, monetary conventions in Shanghai and other Chinese treaty-ports differed from colonial possessions in that many types of quasi-foreign banknotes were circulating there concomitantly, and no European Power could

36 Short-term interest rates in Europe at the time were close to 8% p.a., whereas call loans in East Asia could fetch upwards of 10%. See e.g. Baster (1929), pp. 10-13; on the lucrative credit market in Guangzhou [Canton] shortly before the onset of overseas banking – see Greenberg (1951), pp. 152-156 and Van Dyke (2005), pp. 97-99, 150-160.
37 The Presidency Banks were closely aligned with the colonial government of British India. They enjoyed exclusive custody of government balances but, unlike the Eastern Exchange Banks, were denied the right to raise capital in London. On their note issue – see Bagchi (1989), pp. 96-98.
effectively enforce the paper currency of its preferred banks on local bearers as legal tender.

The British Treasury and Colonial Office were at pains to prevent chartered British banks from forming issue monopolies, and made sure that private notes did not attain legal tender status in any single territory across Asia. To protect undiscerning or impecunious bearers, the Treasury often imposed double liability on private bank issues, and aimed to confine note values to large denominations. The Treasury’s line quite often conflicted with colonial governors, who were anxious to see money supply in their cash-starved entrepôts increasing without shouldering any of the printing and administrative costs associated therewith.

CBIAC’s founder, the renowned economist James Wilson, sought in 1852 a Royal Charter that would not only minimise the risks for prospective shareholders through limited liability, but would also authorise the bank to issue notes payable to bearers at any of its overseas branches outside India. Nevertheless, Colonial currency regulations enjoined CBIAC — like all other royally chartered banks — to keep its total note circulation volume below paid-up capital (GBP 500,000). The Treasury ensured that any issue beyond paid-up capital be rendered unprofitable by requiring that the excess amount of notes in circulation be covered with a 100% bullion reserve. Unlike HSBC, CBIAC seldom chose to engage in excess issues even when bullion supply was abundant. On the upside, this strategy spared the bank printing costs and made its cash reserves less vulnerable to sudden runs. Conversely, it meant that any diminution in the total note circulation volume (below paid-up capital level) would by definition impinge on its profits.

40 A colonial issue was initially considered less desirable than a private one because it entailed higher reserve requirements by law – see, e.g., King (1987), vol. 1, pp. 374-376.
41 Ironically, Wilson was later the main driving force behind the abolition of private bank note issuance in India in his capacity as Financial Secretary to HM Treasury. See Chalmers (1983), pp. 346; for a biographical sketch of Wilson’s flamboyant career as businessman, journalist and politician – see Cortney (2004).
42 HSBC enjoyed special relationships with the Hong Kong government, and was expected in return to issue notes as a gratuitous service to the colony. As a result, the difference in circulation patterns between HSBC and the smaller CBIAC and MBI became increasingly pronounced in the 20th century. HSBC’s total note circulation as proportion of paid-up capital shot up from 2.4 in 1928 to 7.3 in 1933, whereas the corresponding ratio for CBIAC and MBI declined respectively from 0.56 and 0.21 in 1928 to 0.43 and 0.09 in...
CBIAC’s Charter stipulated a common reserve requirement for the authorised (read: non-excess) issue, which obliged branches to maintain in their vaults an average monthly amount of specie equal to one third of its local circulation volume. The bank’s balance sheets suggest that this requirement was largely met by maintaining total liquid reserves that were normally well above local circulation figures, albeit having to support current accounts and other liabilities at the same time.

With more rigorous Treasury regulation during the 1910s, CBIAC specie reserves were progressively complemented through the purchase of interest-bearing British and colonial government securities on the order of 1/3 of the authorised issue. The bank simply deposited those securities en bloc with the Bank of England. But Treasury supervision of overseas banknote issuance in Greater China was further tightened in the 1920s, and CBIAC was now required to place a 1/3 reserve in the custody of the Hong Kong government, and as from 1928 to entrust a proportionate share of securities at the hands of the British Consul-General in Shanghai.

Meanwhile, British monetary regulation in the Straits Settlements was taking a different direction than in Hong Kong and China after colonial administrators resolved to introduce legal tender notes covered by sterling reserves in 1896, and to abandon the silver standard in 1906. Re-based Straits Settlements government notes rapidly replaced older HSBC and CBIAC issues, thereby forcing the two banks to rethink their global circulation

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1933. For a general analysis – see “Comparative Studies of Some Recent Bank Reports”, Bankers’ Magazine vol. 137 (1934), pp. 917-919.

43 See page 9 of the original charter in PRO TS 18/434; cf. Mackenzie (1954), pp. 21-22, 171-172; since 1890, HSBC’s note issue prerogative was subjected to far more stringent reserve requirements generally equivalent to 2/3 of its authorised circulation volume. In addition, HSBC notes had been designated from the outset as unlimited liability on shareholders in case of liquidation – Cf. King (1987), vol. I. pp. 112-114, 122, 391-397, vol. II pp. 67-69.

44 In Shanghai, for example, the mid-year ratio of liquid cash reserves to notes in circulation averaged 2.3 between 1900-1909, while ratio between liquid cash reserves to notes and current accounts averaged 0.51. Calculated from CBIAC GL Ms 31519/13-24.

45 See for example letter dated October 8, 1910, from CBIAC to Treasury specifying the securities deposited with the Bank of England against 1/3 of the maximum note issue – PRO T1/11225 (F15108).

strategy. Profits accruing from overseas bank note issues in East Asia must have been considerable, since CBIAC began to actively petition the Treasury to permanently increase its authorised circulation quota in Greater China in recompense for its diminished position in the Straits Settlements.\footnote{See a letter dated August 20, 1910, from the Treasury to the Undersecretary of State in the Colonial Office indicating that the former had no objection to “the proposed reallocation [of the CBIAC] authorised note issue between several branches in the East” – PRO T1/11225 (F 15126); on similar representations by HSBC – see Sections 4.3 and 5.2 below; cf. King (1987), vol. II, pp. 226-229.}

The upshot was that, from the 1910s, Hong Kong became the focal point of British overseas bank note circulation in the region, far exceeding both Mainland China and Southeast Asia, as Figure 3.2 below clearly shows. Such HK$ notes did not just become a pillar of the Colony’s own financial markets, but also alleviated money supply shortfalls in the neighbouring province of Guangdong until the early 1950s. Recognising that economic growth would require a larger money supply, the global reallocation of British overseas bank note circulation quotas was welcomed by the Hong Kong government. Notably, the latter was wary of radical currency reforms of the sort implemented by the Straits Settlements government, because Hong Kong’s prosperity largely depended on direct trade with silver-based China. At the same time, because the Hong Kong dollar did not take root in Chinese treaty-ports north of Guangzhou, locally-denominated notes issued on the Chinese Mainland were an essential but quantitatively minor auxiliary to CBIAC’s circulation of HK$. 


Figure 3.2
CBIAC Note Circulation – Regional Disaggregation 1883-1939

Unit: GBP (000)

Source: Adapted from CBIAC GL Ms 31519; missing data for 1897, 1910, 1911, 1913, 1917, 1923, 1931 were added based on mid-year figures from the previous year; the Mainland China aggregate covers tael and Mexican dollar note issues in Shanghai, Tianjin and Hankou; the Hong Kong aggregate covers all notes issued in the Crown Colony regardless of whether they circulated locally or in South China; the Southeast Asia aggregate covers Singapore, Penang and the bank’s small issue in Siam. Conversion from local currency to GBP is based on CBIAC’s own exchange rate, as used in the balance sheets.
The 20th century saw a moderate decline in CBIAC’s note issue as a proportion of the bank’s overall activity: between 1903-1935 the bank’s total liabilities and paid-up capital grew by approximately 360%, while its note circulation expanded by 245%. Higher balance-sheet totals were nonetheless indicative of the rapid growth of intra-Asian trade — as well as of intercontinental trade — the latter being the pillar of British overseas banking. During this period, CBIAC’s Southeast Asian strongholds countervailed, in effect, the bank’s inferior position as a creditor in China, while its diminishing role as a bank of issue in the Straits Settlements was compensated by a surge of issues in Hong Kong. This development pattern meant that the Hong Kong branch was becoming increasingly differentiated from other CBIAC branches around the world in that unusually high proportion of its business activity was derived from note issuance, as Figure 3.3 indicates.

48 HSBC statistics reveal an opposite trend because - as the paramount bank in the Crown Colony - it was expected to engage in unprofitable excess issues: in December 1903, the HSBC total note circulation (equivalent to HK$ 13.3 million) constituted 5% of total liabilities, whereas in 1935 it made up 11.3% (HK$ 119 million) — see King (1987), vol. II, pp. 56-57 and vol. III p. 182; cf. CBIAC GL Ms 31519 and Jones (1993), Table A5.1

49 According to Imperial Maritime Customs statistics, there had approximately been a 24% rise in Anglo-Chinese trade (excluding Hong Kong) between 1864-1900, whereas trade between China and Annam (French Indochina) registered a tenfold increase. Comparison in the following period is even more striking: between 1901-1932 Anglo-Chinese trade had trebled, while trade with French Indochina grew by 33 times. Notwithstanding accounting inconsistencies throughout the period, these figures trace out a phenomenal upward trend — see time series in Hsiao Liang-lin (1974), pp. 144-150; cf. Sugihara (1996), passim; on the limitations of Maritime Customs data — see Lyons (2003), pp. 69-72.
As explained in Chapter 2, the expatriate mercantile community in the treaty-ports and Hong Kong recognised from its inception that China’s monetary fragmentation posed a hindrance to trade. Inter-provincial coinage and weight variations encumbered the
movement of foreign goods and services into the interior, and intensified foreign reliance on financial intermediaries. Pre-modern institutions — like the Shanxi banks and the Shanghai moneyshops — maintained a sophisticated remittance network throughout China, which nevertheless fell short of rationalising credit, or propagating impersonal trust. The British banks, on their part, quickly realised that this fragmentation could serve as a source of additional commission income. The difference between the foreign and traditional banking structures lay in the fact that the former offered longer term loans to foreign firms, actively solicited deposits from foreigners and Chinese alike, and circulated notes payable on demand, whereas traditional financial institutions did not embrace reserve ratios and relied almost exclusively on remittance turnover to offer short-term credit.

Like other British overseas bank notes, early CBIAC issues resuscitated — rather than revolutionised — fiduciary money markets in Asia. What British bankers indiscriminately called ‘Bazaar Bills’ in the early 19th century had actually been a time-honoured component of urban transactions from Tehran to Osaka in many shapes, forms and names, albeit on a limited scale. The ingenuity of British overseas banking in Asia lay in its ability to maintain effective control of international exchange bill flows, which put much greater financial turnovers in its hands and extended its credit capabilities far beyond what indigenous institutions or other foreign banks could muster. Outside the larger entrepôts, though, British paper instruments had to accommodate local realities, which necessitated unique clearing mechanisms with traditional on-lenders.50

Reliance on compradors, Chettiar's, shroffs or sarrafs set pre-war overseas banking in Asia distinctly apart from European financial institutions in Latin America, Africa and the Middle East, where expatriate staff were expected to have a reasonably good command of local languages and to engage the rural sector directly.51 Communication barriers between senior management and local clientele in Asia were further exacerbated by executive promotion policies, which underscored frequent relocation between branches and the head office. A managerial appointment in an overseas branch was worth twice as much as in the City of London, but there was hardly any material or social incentive in remuneration packages to encourage the study of Asian languages and cultures prior to assuming posts abroad.52

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50 Wagel (1915), p. 240.
At a great distance from the head office in London, local branch idiosyncrasy required greater autonomy that could result in corporate inconsistency. London-based boards of British overseas banks were acutely aware of the dangers of losing control over overseas staff. Tensions between enterprising branch managers and company directors inevitably became one of the most enduring themes in overseas banking. By the end of the 19\textsuperscript{th} centuries most British overseas banks would appoint Inspectors to frequently shuttle between the branches and audit local lending practices.\footnote{Jones (1990), p. 41.}

3.3 The Chinese Setting

One form of branch autonomy is manifest in inconsistent Chinese-language signage, advertisements and banknote captions from the pre-war era. CBIAC, for example, set up its branch in Shanghai as early as 1858. Chinese clients soon dubbed it the Maijiali 麥加利 Bank after the first expatriate manager, John Mackellar.\footnote{See, e.g., early-Republican gazetteer fragment presented in Jindai Shanghai diqu fangzhi jingji shiliao xuanji (1984), p. 111.} The title would remain in some way or another associated with the CBIAC right up until the 1890s, and although it was apparently never ratified by head office, branch managers in Tianjin, Hankou and Singapore subsequently adopted it as their own. Curiously, another Chinese title had taken root in Hong Kong, where the bank is still known today as Zhada 渣打 (‘The Chartered’). Then, from the 1910s, the official title Yindu Xinjinshan yinhang 印度新金山銀行, or the India and New Gold Mountain Bank,\footnote{In the 1850, overseas Chinese associated Australia — and Victoria in particular — with new gold discoveries, hence ‘New Gold Mountain’. The ‘Older’ Gold Mountain was the title reserved for San Francisco, whose gold rush had broken out only a year earlier; other banks like the Oriental Bank and the US-based International Banking Corporations were known by different Chinese names across Greater China. See, e.g., Ji Zhaojin (2003), pp. 76-77; Xu Jiqing [1970], pp. 77-79.} became more commonly used on the Mainland but was ultimately abandoned in favour of Zhada in the post-war era.

The inconsistency of captions on British banknotes circulating on the Mainland should also be understood in the context of China’s own monetary fragmentation. As described in the introduction, myriad forms of paper money were still in use in littoral China during the early 19\textsuperscript{th} century, but uniform fiduciary money \textit{per se} was becoming but a fading historic memory. During the Shunzhi reign (1644-1661) there had been extensive but short-lived Imperial recourse to 13\textsuperscript{th}-century style copper-denominated notes, which resulted in
runaway inflation and aversion to this means of payment in much of the subsequent Chinese discourse on statecraft. Later-Qing governments simply lapsed into a passive acceptance of overseas silver coins as China's *de facto* mercantile currency.

A last-ditch attempt to issue Imperial paper notes was made during the Xianfeng reign (1851-1861). However, these depreciated rapidly when widespread rebellions threatened the Court. By 1859 they were worth a fraction of their nominal value, and seldom redeemed by Imperial tax inspectors. Unless they had robust *local* credentials, paper notes — as any other form of non-metallic money — were regarded with a high degree of suspicion by the Chinese, as British banks were establishing their first branches on the Mainland. This may be one possible explanation why customary local branch names were not swiftly overruled in favour of consistent corporate identity.

The CBIAC balance sheets suggest that Chinese suspicion of quasi-foreign notes dissipated circa 1900. Only half a century after the first issues on the Mainland did British overseas bank notes make inroads in the Chinese marketplace. CBIAC’s first issue in Shanghai was one of the earliest, dating back to 1863. Like other quasi-foreign note issues in the city, its notes were first rejected by Chinese clients, not least because the city’s *daotai* had refused to accept them in customs payments. It is also plausible to assume that the Agra Bank and the Oriental Bank failures weighed heavily on the standing of the remaining British banks in the eyes of Chinese treaty-port dwellers. CBIAC did not resume large-scale issues until 1885, but initial results were still marred by widespread suspicion. In comparison, early issues in Singapore and Hong Kong were more welcomed. HK$ notes issued as early as 1862 by the CBIAC branch in the Crown Colony were in wide circulation three years later, and even used as cash reserves by local moneylenders.

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57 For a detailed analysis of Xianfeng monetary policies — see Hamashita (1989), pp. 57-61; unlike foreign banknote design, Xianfeng notes were upright, woodblock-printed and largely devoid of realistic watermark imagery — see, e.g., Huang Hengjun (2001), pp. 77-101.
58 Mackenzie (1954), p. 59; CBIAC Shanghai balance sheets put note circulation figures in mid-1864 at Tls. 18,890, swiftly plummeting to Tls. 30 by 1870. See CBIAC GL Ms 31519/1-4.
59 The second issue in Shanghai gained a circulation of Tls.12,500 in mid-1886, but dropped to Tls. 7,500 the following year. The circulation steadily picked up thereafter — see CBIAC GL Ms (31519) 5-6; cf. Pan Liangui (2004), pp. 74-75.
By the early 20th century, contemporary observers had noted that Chinese provincial banks feverishly emulated foreign banknote designs with little regard to adequate reserve policy. Although successful in attracting civilian funds at first, most of these banks eventually fell prey to the fiscal excesses of warlords, leaving a trail of irredeemable notes. For this reason, CBIAC shunned most Chinese banknotes throughout the pre-war era. When repaying loans or remitting funds specie, bullion, and quasi-foreign or colonial notes were the only media acceptable.

British banks did not aim at reshaping China’s regional monetary fragmentation. Neither could they command a large portion of China’s money supply from their treaty-ports enclaves. In Shanghai, the Western community relied on the Chinese mercantile caucus just as the latter counted on foreign judicial and military protection. The period 1895-1914 marked the zenith of European imperialism in China proper, but even then — with decades of local experience behind them — British overseas banks could scarcely engage the agrarian interior of the country without the mediation of local compradors and treaty-port marketing guilds. The European colonial Powers could break into Chinese Imperial coffers through the imposition of war indemnities, and browbeat a motley crew of warlord-dominated governments into surrendering custom revenues and railway concessions. However, none of these factors could fulfil the hyperbole of the propaganda holding out the prospect of hundreds of millions of consumers in the hinterland eager for foreign manufactured goods. Therein lay the fabled resilience of China’s pre-modern economy.

Chinese consumption habits changed little in the hinterland because the average purchasing power of most rural communities did not rise significantly in per capita terms from the

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61 Late-Qing Imperial and private banks in the provinces over-relied on note circulation, and sidelined deposit acceptances – see Wagel (1915), p. 165 and Peng Xinwei (1958), pp. 673-675.
62 Cf. CBIAC GL Ms 31519/111 – this 1930 Beijing balance sheet shows that Chinese notes were seldom included in the bank’s cash reserves even after political unification of the country; earlier the only exception may have been notes issued by the Imperial Bank of China circa 1909 – see Tamagna (1942), pp. 36-37; Hao Yen-p’ing (1970), p. 109-112.
63 Feuerwerker (1958), pp. 54-56. British foreign policy makers were, in fact, averse to calls by the expatriate mercantile community in the treaty-ports to use military force in order to establish effective control over the Chinese hinterland. As was precociously stated in the Mitchell Report (1852), the Foreign Office could not be led to believe that military intervention would make appreciable headway for British exports, because it perceived of the Chinese economy as self-sufficient. See Pelcovits (1948), pp. 15-18; Moulder (1977), pp. 107-109.
1840s. Affordable imported kerosene was becoming popular, and Indian-made yarn could find buyers when market conditions allowed, but both had inferior local substitutes in the form of vegetable oil and hemp. Even Bengali opium had been partly replaced by the 1890s, and could no longer fetch quick gains for expatriate trading houses. Those foreign firms that ventured out of the treaty-ports soon found out that success in the Chinese market was a function of either intimate acquaintance with local practices and the employ of the right go-betweens, or of unrestricted access to corruptible officials.

The volatility of the European Powers’ informal imperia in East Asia became abundantly clear after the Russo-Japanese war (1904-1905), whose unanticipated outcome reverberated throughout the region for many years to come. Japanese expansionism was then precipitated by the ousting of Germany from its Asian concession areas during World War I, and by the erosion of the Anglo-Japanese Alliance (1902-1923). In the 1920s, the three principal British overseas banks in East Asia — HSBC, Chartered Bank and the Mercantile Bank of India — were still unchallenged financially, but with the rise of Chinese nationalism and the phenomenal leap in home-grown modern banking, their future prospects in the treaty-ports were becoming increasingly uncertain.

Faced with unremitting popular outcry, extra-territoriality was first ceded by British garrison forces in Hankou and Jiujiang as early as January 1927, paving the way for British government rapprochement with a resurgent Guomindang [GMD] two years later and a long process of accommodation between Jiang Jieshi’s [Chiang Kai-shek] proxies and the leading British bankers in Shanghai. The most sensitive issue in contention between the ruling GMD and Shanghai’s expatriate banking community during the Nanjing Decade (1927-1937) was the future of China’s mammoth foreign debt service. The hold of foreign banks on domestic deposits and their right to issue locally-denominated notes were of secondary importance, because a hostile GMD could potentially suspend debt repayments to foreign creditors, but do little to interfere with the banks’ other prerogatives

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69 As part of this accommodation, HSBC refrained for example from accepting more deposits from Chinese nationals through the 1930s by a ‘gentlemanly agreement’ with GMD officials – see King (1987), vol. III, p. 355-362.
so long as extra-territoriality in Shanghai was in effect. Nevertheless, GMD officials continued to view the free circulation of quasi-foreign banknotes in the treaty-ports as an affront to Chinese national aspirations, and as a major obstacle along the way to comprehensive monetary reform.

When Jiang Jieshi fatefuly decided to break with his Chinese Communist Party [CCP] allies and tighten his hold on disaffected warlords in 1927, overtures between the GMD and Britain — whose diplomats had hitherto described the GMD brand of Chinese nationalism as ominously ‘Bolshevised’ — were already underway. Jiang’s drift to the right later that year facilitated a thaw in GMD-British relations. This thaw was followed by pressure from the British government on a recalcitrant British bankers contingent in Shanghai to scale down their operations in return for a Chinese commitment to honour foreign debts in abeyance.

Realignment between the Chinese and British governments was equally spurred by Japanese territorial exigencies, which threatened the interests of both countries. In November 1935, cooperation between the two governments culminated in a concerted effort to take China off the silver standard and introduce a fiduciary national currency pegged to the pound sterling (fabi). This new legal tender was to replace the myriad media of exchange that had been prevalent in the Chinese economy, including quasi-foreign banknotes. Compliance of the British banks in Shanghai with the fabi reform was formally enforced by the British Consul-General, who promulgated an edict obliging all British firms in the city to hand in their silver possessions and convertible paper notes to GMD-run banks in return for legal tender notes. Ultimately, note issue rights were sacrificed by the British government with surprisingly little opposition from the British banks.

What was the underlying reason for the readiness of the British banks to renounce note issuance in China? CBIAC balance sheets suggest that the bank’s note circulation volume fell precipitously from mid-1933, when a shift in US monetary policy sent silver prices

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70 Extra-territoriality in China was formally abrogated only in January 1943, as a wartime gesture of the Allies — see Bickers (1998), pp. 162; Lee En-han (1981), pp. 1464.

71 For the belligerent British attitudes toward the GMD before the thaw in relations — see, e.g., dispatch from the Hong Kong government to the Colonial Office — PRO FO 371/12417 (F1120 ff. 265-271), dated 5 November 1926.

skyrocketing worldwide, and as public anticipation of the fabi reform and the
demonetisation of silver was building up (see Figure 3.4 below). Still, CBIAC’s total note
circulation in China fluctuated well above Shanghai Tls. 1 million between 1913-1934,
hitting a record level of Tls. 2.3 million as late as June 1932. Yet, when the analysis is
confined to Shanghai, it becomes immediately evident that this pattern was interrupted in
1915 and through the mid-1920s.

Figure 3.4
CBIAC Note Circulation - Mainland China Denominations, 1886-1939

Unit: Shanghai Tls. (000)

Source: CBIAC GL Ms 31519; the value of banknotes denominated in Mexican dollar and Tianjin Tael were
converted to Shanghai Tael based on the bank’s implicit exchange rate.

73 This figure (Tls. 2.3 million) is limited, of course, to the aggregate of CBIAC banknotes denominated in
Chinese local currency. The volume of CBIAC HK$ banknotes circulating outside the Crown Colony’s
perimeter cannot be accurately determined.
The drop in CBIAC’s Shanghai circulation volumes beginning in mid-1915 and the subsequent 4-year trough shown in Figure 3.4 may have primarily stemmed from the effects of World War I on the leverage of British banks in the city. Throughout 1916, for example, Shanghai’s pro-German Imperial prefect attempted to destabilise HSBC and probably other British banks by spreading rumours that German battleships had scuttled Shanghai-bound vessels freighting bullion from England. Then the prefect misinformed the Chinese government that HSBC’s managers in Shanghai and Hong Kong absconded, and that their branches were forced to shut down, resulting in a run on HSBC banknotes. Another side-effect of the War was a sudden reprise in the value of silver in Europe that, by 1917, had precipitated an arbitrage-driven backflow of bullion from China. The reprise compounded the drop in CBIAC banknote circulation volumes because the alternative cost of pledging bullion locally in return for notes increased. The consequences of note redemption and the silver backflow in 1917 were so pervasive that the Shanghainese press frequently reported acute cash stringency.

As indicated above, the ultimate drop in CBIAC’s Shanghai circulation volumes after June 1933 can be plausibly attributable to concurrent legislation in the US, which allowed President Roosevelt to tackle the Depression by drumming up the price of silver. Under the influence of US purchases of silver, the intrinsic value of China’s silver-based currency appreciated far above its exchange value, resulting in a lucrative export of the metal overseas and a rapid narrowing of the money base that was reminiscent of the 1917 cash stringency. During 1934-1935, the Chinese government tried to combat the flight of silver by imposing hefty export duties. However, several foreign banks — including CBIAC — managed to routinely smuggle silver out of China right under the government’s nose. The high alternative cost of immobilising silver reserves against the note issue in Shanghai during 1934-5 may well have led branch managers to retire notes when presented for encashment. It is equally plausible that the smuggling of silver alarmed note bearers, who preferred to capitalise on the high price of silver themselves.

74 Between June 1914 and June 1915 CBIAC fixed deposits in Shanghai had fallen markedly from Tls. 2.1 million to Tls. 1.6 million. See CBIAC GL Ms 31519/31, 33.
76 See, for example, North-China Herald, 6 January 1917, p. 11; ibid., 20 January 1917, p. 140; ibid., 7 April 1917, p. 31.
77 Lin, Wei-Ying (1936), pp. 11-16. See also discussion in Chapter 5.4.
Either way, the depressed note circulation in Shanghai during the mid-1920s is attributable to an entirely different set of circumstances. By and large, foreign firms operating in China faced repeated waves of popular boycott during 1919-1926, heightened by the crumbling of the last vestiges of central authority protection. In CBIAC’s case, anti-foreign sentiments seem to have taken their toll particularly in Shanghai, where the circulation volume was almost halved from Tls. 1.24 million in June 1919 to 0.75 million in June 1926, as Figure 3.4 clearly shows. The most pronounced annual drop through this period occurred between June 1925 and June 1926. This, in turn, points to a strong circumstantial linkage between circulation volumes and the outpouring of anti-British demonstrations in the wake of what became known as the May Thirtieth Incident (Wusa can’an 五卅惨案).

More generally, Figure 3.4 also bears out trends and events that have been alluded to earlier based on references in secondary literature, but have yet to be fully substantiated once qualitative CBIAC archival material is released. Firstly, Chinese suspicion of notes meant that the aggregate circulations volume picked up only around the turn of the century, rising moderately for about a decade thereafter. It was then crucially boosted in the wake of the Qing’s downfall, and as China descended into chaos during the early Republican period. A short-lived recovery from the World War I trough is noticeable between 1920-1922, possibly as a result of other foreign and Chinese bank failures.

The assumption of substitution between CBIAC and, in the very least, other British bank notes is supported by the fact that the aggregate peaked unmistakeably in the early 1930s, largely as a result of increased circulation volumes in Tianjin. As will be shown in Chapter 5.4, this was exactly the period when HSBC began withdrawing its China issue.

3.4 The 1925 Boycott of British Banks in Shanghai

The May Thirtieth Incident broke out in 1925 in Shanghai, when a labour dispute in a Japanese textile factory situated in a British-policed concession area escalated into a commercial strike and year-long nationalist boycott against British goods, sweeping across other treaty-ports and Hong Kong. The protest movement, which the Incident sparked off, marked a definitive turning point in Sino-Foreign relations. Not only did it force the Powers

79 See CBIAC GL Ms 31519/49 to 92.
to enter negotiations with the Chinese government over treaty revision and the eventual abolition of extra-territoriality, but it also changed longstanding Western perception of the Chinese as servile.

At the height of this conflict, CBIAC was compelled to send Portuguese clerks from Hong Kong to replace large numbers of local staff on the Mainland, who had collectively resigned. British firms operating deep in the interior were not spared either: the Peking Syndicate mines at Jiaozuo (Henan Province), for example, had been forced to shut down, and did not recover until 1933.

The violent demonstrations rocked British diplomatic legations, and militated an increasingly assertive group of Chinese modern banks to fold back cooperation with their foreign counterparts. Despite relative insulation from the hinterland economy and the transient nature of the boycott, banknotes had become by then one of the most tangible aspects of the British banks' presence in the treaty-ports, and were therefore particularly vulnerable to popular rejection as a means of payment.

The boycott of British bank notes in Shanghai during 1925 has not attracted much scholarly attention, mainly because it had been transpiring backstage, and was played down in expatriate press reports. In other words, while the relentless campaign against British consumer goods produced immediate repercussions in bilateral trade statistics, and was constantly decried by the British expatriate community in China, accurate information on

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81 Mackenzie (1954), p. 236-237; The China Press reported on 25 June 1925 (p. 1) that "...some of the office-boys of the Hongkong and Shanghai bank have walked out".

82 Wright (1984), p. 130.

83 Some Chinese bankers demanded, for example, that customs surplus be deposited only with Chinese banks — see, e.g., North-China Herald, 19 September 1925, p. 338.

84 In the long haul, 'invisible' CBIAC liabilities in Shanghai, like fixed deposits, were not as vulnerable to anti-foreign agitation as the bank's local note circulation. In fact, total liabilities grew from Tls. 16.2 million in June 1925 to 18.3 million in June 1926. See CBIAC GL Ms 31519/83 and 86.

85 The first issue of the North-China Herald to report the disturbances appeared only on 6 June 1925 (see p. 414, 416-417). The Herald then had to concede that the strike had brought the city to a standstill, and that one of the alarming goals that students in Shanghai and Beijing agitated for with some degree of success was a ban on British banks. However, British executives and company managers were not asked to comment on the severity of the boycott; for expatriate press reports on the Chinese student campaign in Shanghai and Beijing to boycott quasi-foreign banknotes and to withdraw deposits from foreign banks — see also South China Morning Post, 2 June 1925, p.8; ibid., 6 June 1925, p. 12.
the extent of British bank note redemption and deposit withdrawals was largely confined to confidential branch correspondence. The Chinese press, on its part, often reported on student activists who — at the height of the conflict — demanded that Shanghai’s merchant and banking guilds declare an all-out currency war against quasi-foreign notes; that ‘wayward’ moneychangers who accept quasi-foreign notes be punished; and that all Chinese residents of the city withdraw their deposits from foreign banks. But in the lack of substantive information on the outcome of such calls, Chinese newspapers were more prone to cover the boycott of British-made products, which had readily available — and fairly reliable — local substitutes: cigarettes, kerosene, drugs and luxury items.

Hong Jiaguan has argued that, perhaps more than any other event in the 20th century, the May Thirtieth events helped Chinese modern banking flourish, and pointed to a 71.4% rise in the volume of funds deposited therein through 1925. While such dramatic advances cannot be ruled out offhand, the CBIAC Shanghai branch balance sheet does not indicate a comparable drop in foreign bank deposits. CBIAC fixed deposits in Shanghai merely dropped from TLs. 7.9 million in December 1924 to TLs. 6.3 million in December 1925, while current accounts actually climbed from TLs.7.7 million to TLs. 8.5. Considering the fact that the CBIAC note circulation volume in the city was almost halved during the same period, deposit levels clearly show that Chinese response to the anti-foreign agitation was by no means uniform. Namely, it seems plausible to assume that Chinese bearers were keen to redeem quasi-foreign banknotes, which were of highly visible nature, but less inclined to entrust funds long deposited in foreign banks to Chinese equivalents.

In early June 1925, Shanghai moneyshops and Chinese-owned banks had struck in solidarity with the victims of the May Thirtieth Incident, and an all-out ban on British note clearing had been formally declared. North-China Herald, the most influential English-language newspaper in Shanghai, was traditionally dismissive of the ability of student movements and popular discontent to bring about change in Chinese political consciousness. Initially, the general tone taken vis-a-vis the Incident was low-key. But when it became clear that the disturbances, strike and boycott would not end soon, as the

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87 Hong estimated total deposits in principal Chinese banks at 1.4 billion silver dollars in late 1924. By late 1926 the total is said to have reached 2.4 billion silver dollars. See Hong Jiaguan (1989), pp. 18-19.
88 See CBIAC GL Ms 31519/78 to 83.
newspaper’s bellicose coverage had first implied, editors shifted attention to physical attacks on British nationals. Runs on British banks were not reported as such, nor was the sensitive issue of how British companies fared through the boycott. Thus, whatever journalistic coverage of massive banknote redemption we have is from the lower rung of the Chinese press in Shanghai, which took a more militant line than established newspapers like Shen bao, and were therefore less reliable.

Another reason why the boycott of British bank notes in 1925 was less pronounced than the one targeting consumer goods had to do with the fact that the relationship between Chinese and foreign banks at that point in time was not always one of hostility or competition. The Shanghai branch of the Bank of China sought, for example, foreign bank assistance when it experienced a run on its banknotes during the banking coup of 1916. Conversely, Du Xuncheng has shown that the Zhejiang Industrial Development Bank (Zhejiang xingye yinhang 浙江興業銀行) deposited more than Tls. 300,000 at the HSBC in the course of 1923.

These cross-ties may help explain the complex attitude that Chinese business elites took following May Thirtieth events. In the immediate lead-up to the crisis, Chinese business elites had been incensed by SMC reluctance to grant them more political representation, and by attempts to increase wharfage fees and interfere in labour conditions. Chinese industrialists in direct competition with British imports or expatriate firms took advantage of the ensuing political climate to explicitly agitate against their rivals. But Chinese merchants and bankers were for the most part more hesitant, since they often entertained amiable working relations and had intermeshing interests with British firms.

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91 On 8 June 1925, the Gongli ribao 公理日報 reported that a sudden run on HSBC in Shanghai exhausted its cash reserves, and that Chinese bearers of CBIAC notes were now anxious to redeem them. The two British banks were allegedly saved from collapse only when two moneyshops secretly decided to honour their notes for an exorbitant commission. Quoted in Wusa yundong shiliao (1981), pp. 200-201; although front page advertisement promoting substitutes for British cigarette brands and reports on student demands for the boycott of quasi-foreign notes started appearing in the Shen bao as early as 4 June 1925 [pp. 2-4, 13-15], the newspaper’s editorial line remained relatively subdued.


Advertisements in the Chinese press denigrating rival British consumer goods — particularly cigarettes — were very common through 1925 (see Appendix 2.4). Chinese bank agitation was usually not as extensive and less pronounced that the one carried out by students, but notable exceptions can be found. On 4 August 1925, for example the otherwise conservative *Yinhang zhoubao* [a.k.a. ‘Bankers’ Weekly’] carried this Shanghai Commercial & Savings Bank advertisement:

> The tragic events following the May Thirtieth iniquity startled the entire nation. What has since been uppermost on everyone’s mind — apart from protesting foreign aggression and bullying — is finding a way to save lives and property. The pursuit of industrial development and the setting up of factories are important collective means of helping the nation cope. Nonetheless, if we are to do that, we must first pool our capital into solid savings. If only each and every one of our four hundred million compatriots opened a savings account — many a little would make a mickle [jiye chengqiu 集腋成裘]. We will then mutually benefit from enormous resources with which to promote industrial development. Nothing will be beyond our reach, and no trade will remain unprofitable.

> This bank prides itself on reliability and the ample reserves backing all its business activities. Our service is at its very best when it comes to opening savings accounts, and we offer generous interest rates to clients. We would be honoured to answer expressions of interest from patriotic sires, and are able to send printed brochures by mail.\(^95\)

The unprecedented vehemence with which British businesses were attacked sounded alarm bells in London, and stirred Whitehall to quiz the Eastern Exchange Banks on the viability of their bullion reserves.\(^96\) More importantly, the Chinese boycott of British goods in 1925 bore on the overall performance of the banks, since a large segment of their revenue hinged on the finance of trade between the two countries. In his annual address to shareholders

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\(^95\) *Yinhang zhoubao* vol. 9 no. 29, 4 August 1925, p. 410; for background information on the Shanghai Commercial & Savings Bank in the 1920s — see Zeng Xianming (2000).

\(^96\) See extensive correspondence between the Colonial Office and the Eastern exchange Bank through 1925-1926 in PRO CO 129/510/1.
delivered in March 1926, CBIAC's Chairman Sir Montagu Cornish described the situation in blunt terms:

We now come to China, the particular spot which has caused great anxiety both to banks and traders alike. The position in that unfortunate country and the conditions of trade have been most deplorable for some considerable time, but the serious trouble began with the riots in Shanghai in May last. Strikes and boycotting caused a complete collapse of business in Shanghai for a couple of months, and following on this, civil war, suspended for a while, burst out with increased intensity. Naturally, the situation, which has now developed gives cause for much anxiety, and, what it means to Great Britain - the trade figures reveal at a glance. For 1925 we are afraid that the figures will make a poor showing compared with the preceding years.

The tenor of the Chairman's pronouncement was indicative of a substantial diminution of earnings for all the three principal British banks operating in China in 1925. But while CBIAC's total real profits fell by 15.5% compared with the previous year, HSBC suffered an overall drop of only 2%. The Mercantile Bank of India was even less dependent on the Chinese market. Its returns in South Asia smoothed over poor results in China, with an overall profit hike of 5.8% in 1925. However, local statistics available for the Mercantile Bank reveal that its Shanghai branch was incurring heavy losses during 1920-1926, and that the bank's note circulation there plummeted from the equivalent of GBP 56,000 to just GBP 19,343 during the same period.

In the mid-1920s, challenges to British economic hegemony in China were palpable in a wide range of sectors. Domestic firms took advantage of the political climate to lure away clients from British multinationals in a wide range of sectors; Nanyang Bros. produced cigarettes in Shanghai that snatched a significant market share from the British American Tobacco

98 Calculated from Jones (1993), Table A5.1; based on the adjusting account entry in the Shanghai balance sheet, it can be plausibly inferred that at least 30% of the drop in overall CBIAC profits during 1925 was attributable to underperformance at this branch – see CBIAC GL Ms 31519/83; despite the superior performance of HSBC in 1925 its executives were equally alarmed by the long-term implications of the boycott – see report in The Economist, 17 April 1926, pp. 791-792.

Company [BAT]; Chinese shippers stung British steam navigation hegemony on the Yangzi, and most Shanghai department stores catering for the masses were dominated by overseas Chinese. In his study of Sino-Foreign corporate rivalry in the treaty-ports, Sherman Cochran found that the 1925 boycott had considerably boosted Nanyang’s profit margins, but could not ascertain BAT’s performance in China presumably because he had been denied access to the relevant company archives in London. He therefore concluded that the economic effects of the May Thirtieth Incident were “…not fully understood, and deserve further research.” Based on British consular sources, Richard Rigby has suggested, in turn, that BAT sales in China dropped by as much as 40% in mid-July 1925. The psychological impact of this downturn was so dramatic that by the end of the month, the China Association — a body aligning the biggest British firms operating in the region — had petitioned the Foreign Office to refrain from using military force in Shanghai and to try mollifying student anger with promises of ending extra-territoriality in the distant future.

Although CBIAC Shanghai branch balance sheets fall short of providing a robust estimate of the losses it incurred in 1925, the long-term circulation pattern that they delineate point to the sheer magnitude of the boycott. Figure 3.4 above point to a 47.9% drop in the CBIAC banknote circulation volume through 1925-6, echoing the figures quoted by Rigby as regards the far-reaching effect that the same boycott had on BAT.

3.5 Away from Shanghai

CBIAC started issuing local dollar notes in Hankou during the latter part of 1924 and met with initial success. But there, too, circulation decreased markedly between June 1925 ($89,950) and June 1926 ($57,150) without a commensurate effect on deposit receipts or current accounts. In Tianjin, a substantially different pattern emerged — a factor that may point to the varying monetary and political pulses that set apart North China from the Yangzi basin. Notably, the spasmodic wave of anti-British demonstrations that had

100 Osterhammel (1989), pp. 193-194; British-owned department stores in Shanghai’s International Concession catered almost exclusively for the foreign community. The leading Chinese chains, Wing On and Sincere, had been set up with overseas Chinese joint-stock capital. They did not seem to have borrowed foreign bank capital on a large scale until the 1930s – see Chan Wellington K.K. (1977), passim.
103 Rigby (1980), pp. 142-146; see also Clifford (1991), pp. 137.
104 See CBIAC GL Ms (31519) 80, 85.
convulsed Shanghai in June 1925 generally spread southward, but was much less pronounced in the North.103

Was 1925 equally dismal for British bank performance in Hong Kong? In view of the stock exchange indices, we might expect a similar drop in circulation figures there. In some respects, Sino-foreign friction was even more pronounced in South China than in Shanghai, because the GMD had by then set up a provisional government in Guangzhou, which vowed to outlaw HK$ notes and coins in China,106 and to which the Hong Kong colonial government was openly hostile. Moreover, opposition to quasi-foreign note issuance was one of the most vehement facets of Sun Yixian’s [Sun Yat-sen] otherwise ambivalent stance toward the Powers.107

On 23 June 1925, a mass demonstration in solidarity with the Shanghai strikers escalated into a bloody confrontation that rocked the Shamian 沙面 [Shameen] foreign concession area of Guangzhou, resulting a death toll considerably higher than in the disturbances further north. The June 23 events in Guangzhou were to be named the Shaji 沙基 [Shakee] Incident, after the creek separating the Chinese city from the concession, where French and British soldiers had shot demonstrators.108 Like earlier in Shanghai, a comprehensive strike and boycott of British goods immediately followed — but rather than students, it was GMD authorities that were coordinating the protest movement in South China.109

Like in Shanghai, the CBIAC balance sheets in Hong Kong point to a steep diminution in banknote circulation in the mid-1930s that was probably propelled by anticipation of the fabi reform and rising silver prices, but not accompanied by deposit withdrawals (see

105 Borg (1947), p. 40-41; Sheehan (2003), pp. 110-125, 152. By way of contrast, it should be noted that HSBC circulation volumes in Tianjin had been adversely affected through 1925 and rapidly declined thereafter – see Sections 5.3 and 5.4 below. The stark differences between the CBIAC and HSBC circulation patterns in Tianjin after 1925 is most likely a reflection of the latter’s policy of retiring China notes following the Wusa upset. CBIAC, on the other hand, seems to have harnessed greater demand for quasi-foreign notes in the North, where residual warlordism and Japanese encroachment destabilised domestic banks, in order to offset the shrinking of its Shanghai issue.


Figure 3.5 below). However, in stark contrast to Shanghai, the balance sheets show no comparable drop in circulation during the mid-1920s.\textsuperscript{110} Rather, the most significant drop (-35\%) occurred between 1913 and 1914, soon after — but not necessarily because of — the beginning of World War I hostilities in Europe.\textsuperscript{111}

Figure 3.5

\textbf{CBIAC Hong Kong Branch - Notes in Circulation and Deposit Receipts, 1863-1939}

![Chart showing notes in circulation and deposit receipts from 1863 to 1939.](https://via.placeholder.com/150)

Source: Adapted from CBIAC GL Ms 31519

Was it the case that different circumstances in Hong Kong succeeded in shielding overseas banks in 1925? Or were the HK$ notes they issued never under any serious attack in South

\textsuperscript{110} Whereas the drop in the Shanghai circulation volume between June 1925 and June 1926 was 47.9\%, Hong Kong registered a mere 2.2 \% dip during the same period — see CBIAC GL Ms 31519/ 80, 84.

\textsuperscript{111} While it is true that the CBIAC HK$-denominated note circulation fell by 35\% between 1913-1914 (mid-year figures), Hong Kong year-end money supply figures indicate that this may have been caused by a concomitant increase in HSBC and MBI note circulation volumes during the same time — see Hong Kong Blue Book 1913, 1914 [Section R].
China? In order to answer these questions, it is first necessary to reconsider previous accounts of the role played by HK$ notes in Guangdong’s economy. Estimates of HK$ notes circulating in China proper during the first half of the 20th century vary markedly between Tamagna’s 20% (for 1937) to Rawski’s notional 66.6% (for the entire pre-war period).\(^{112}\) In the mid-1920s, HSBC executives in Hong Kong believed 70% of their notes were circulating in south China, but in the early 1930s the suggestion was 60%.\(^{113}\)

Rawski’s influential book drew quite liberally on previous work done by Xian Ke.\(^{114}\) The latter had grossly overstated foreign bank note inroads into China proper, and his conclusions as regards the ubiquity of HK$ in Guangdong are therefore suspect. For example, Xian advanced the implausible proposition that at least one third of the Banque de L’Indochine piastre notes issued in Annam found their way to two of the poorest provinces in South China — Guangxi and Yunnan.\(^{115}\) While Rawski chose to reject this particular proposition, he embraced Xian’s suggestion that two-thirds of the total Eastern Exchange Banks’ note issue circulated in China proper, thus ignoring their considerable share of the money supply in the Straits Settlements until the 1900s.

A comprehensive survey made by the Guangxi provincial government in 1933 indicated that piastre coins or notes were circulating in only 28 of its 99 counties. Within these 28 counties, piastre notes in most cases made up only 5% of the money stock, with the notable exception of Pingxiang 𢄨祥, right on the border with Annam. But even in this frontier area piastre notes were reported to account for no more than 60% of the money stock.\(^{116}\)

Frederic Lee observed in 1926 that piastre and HK$ notes were fairly common in Yunnan, but that locally-issued notes had been the mainstay of financial markets.\(^{117}\) Similarly, there are ample contemporary Chinese observations to suggest that the circulation of Banque de


\(^{115}\) See Xian Ke (1958) pp. 52, 154-161; Rawski erroneously stated in his book that Xian had attributed 100% of the Banque de L’Indochine note circulation volume to China proper. In fact, the ratio advanced by Xian was 1/3; the highest ratio of Banque de L’Indochine notes circulating in China proper that was suggested by Chinese scholars seems to be 2/3 — see Ding Richu (1994), vol II, pp. 85-86.


\(^{117}\) Lee [1982], pp. 26-27.
L'Indochine notes in Yunnan province was rather confined to the cities of Mengzi and Kunming, and that its value could not have exceeded 20 million silver dollars in 1919, i.e. less than a third of Xian Ke’s estimate for Guangxi and Yunnan that year.\(^\text{118}\)

In an in-depth survey of provincial economic performance before World War II, David Faure has suggested that payments in kind and silver bullion typified rural Guangdong. From 1870, silver dollars coins were also becoming a common media of exchange in Guangzhou and Shantou [Swatow]. To some extent, paper notes could be found circulating in those two cities alongside silver coins but they “...did not alter the bimetallic basis”.\(^\text{119}\)

Even as late as 1949 when hyperinflation in China was rampant, and most prices in Guangzhou quoted in HK$ rather than provincial currency, contemporary observers estimated that only half of the notes issued in Hong Kong had found their way to South China.\(^\text{120}\)

That the prevalence of HK$ notes in Guangzhou largely depended, on the demand-side, on ready convertibility by local British bank has been alluded to by Frank King.\(^\text{121}\) It is also apparent from correspondence between British and Chinese officials that was relayed to the Chinese Maritime Customs. For example, on 6 May 1936 — well after the demonetisation of silver currency in China — British envoy Sir Frederick Leith-Ross tried to persuade Kong Xiangxi [H.H. Kung], the Chinese Finance Minister, that the bullion reserve once used by HSBC and CBIAC to cash their notes in Shamian be allowed across the border into Hong Kong.\(^\text{122}\)

On the supply-side, the prevalence of HK$ notes in Guangzhou was as result of the trade surplus the province had with Hong Kong. This surplus seems to be reflected in the makeup of the CBIAC Guangzhou agency balance sheet in 1920 (see Table 3.1 below). The balance sheet indicates that, in contrast to Shanghai, the agency paid out loans to Chinese-


\(^{119}\) Faure (1989), pp. 59-60; a 1903 guide for Western visitors to the city of Guangzhou suggests that money primarily implied silver dollar coins there, but “…any of the [banknotes] circulating in Hongkong” were also current. See Hurley (1903), p. 22; a 1919 handbook for American businessmen similarly reported that “among the Chinese” in Guangzhou the unit of currency was provincial subsidiary coinage, while “between foreigners” and in the import-export business “Hongkong notes” were used. See Arnold (1919), vol. I, p. 111.

\(^{120}\) Schenk (2000), pp. 746-750.

\(^{121}\) King (1987), vol. III, p. 64.

\(^{122}\) See Leith-Ross to H.H. Kung, dated 6 May 1936, in SOAS Maritime Customs Files [Maze papers] Ms 285232.
owned filatures producing raw silk — a major provincial export at the time. The balance sheet is notably devoid of exchange bill flows, which suggests trans-shipment of silk cargos via Hong Kong by foreign trading firms. The balance sheet is denominated in HK$ units of account throughout, and the cash reserves therein were almost entirely made up of HK$ notes rather than silver coins. Short-term ‘silk loans’ represented as much as 56% of agency assets, and would have been quite profitable since they garnered a lending margin of up to 6.25% over interest payments to depositors.

Table 3.1

CBIAC Guangzhou Agency Select Balance-Sheet Entries  Unit: HK$

December 1920

Deposit Receipts (up to 1 year)

| From Chinese Individuals and Firms | 14,600 |
| From Foreign Individuals and Firms | 400   |

Loans Against Collateral (up to 1.5 years)

| To Chinese Individuals and Firms   | 441,400 |
| To Foreign Individuals and Firms   | 0       |

Balance-Sheet Total  779,000

Source: CBIAC GL Ms 3159/53

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123 Given the fact that local cash reserves did not include sycee, it is very likely that at least some CBIAC Guangzhou agency loans were disbursed and paid back in HK$ notes; on the silk industry in Guangzhou – see Eng (1984) 355-370, pp. 354-355. Eng estimated that silk had contributed 63% of value of Guangzhou exports between 1912-1929. However, his assumption that Western capital was not introduced to this industry (p. 359) is qualified by the balance sheet in question. It seems that British bank lending policy in 1920s Guangzhou was, in this sense, very different than in Shanghai.


125 The cash reserve for December 1920 consisted of HK$ 85,000 in CBIAC-issued notes and HK$ 124,318 in other bank notes. Subsidiary coins merely amounted to HK$ 0.88. See CBIAC GL Ms 3159/53.
Within the bank, the agency was clearly a net debtor. Inter-agency capital inflow — most probably from Hong Kong — accounted for 85% of total liabilities. The volume of current accounts that the agency operated was relatively minor (HK$ 90,446). It was nonetheless dominated by multinational firms (see Figure 3.6 below). Only 9 out of 54 accounts — or merely 15% in terms of total account volume — were attributable to Chinese individuals and firms. Given that 97% of all deposit receipts were from Chinese individuals and firms — their small ranks among current account holders may suggest that British agency managers were reluctant to engage local clientele on an open account basis.

**Figure 3.6**

**CBIAC Guangzhou Agency — Current Account Profile, Dec. 1920**

![Pie chart showing account distribution](chart.png)

- **Foreign - Personal A/C**: 16%
- **Suspended German Accounts A/C**: 1%
- **Chinese - Personal A/C**: 15%
- **Chinese - Inter Bank A/C**: 0.3%
- **Foreign - Corporate A/C**: 68%

**Total — HK$ 90,446**

Source: Adapted from CBIAC GL Ms 3159/53.

But what proportion of CBIAC HK$ notes circulated in South China? Two alternative approaches can be used to approximate this: 1. The volume of total liabilities in the Guangzhou agency; 2. The ratio of notes in circulation to liquid reserves (notes, silver coins and sycee) in all Greater China branches. In 1920, CBIAC had no other agencies in Guangdong and it is therefore unlikely that its note circulation in the province far exceeded local balance-sheet totals. As elsewhere, the ubiquity of banknotes in South China
depended on prompt convertibility, and this is one of the reasons why they were not commonly used in rural areas. There were numerous border checks on movement between Hong Kong and the Mainland, which offset the premium that Hong Kong-issued notes usually had over provincial currency. CBIAC's note circulation volume in Hong Kong was HK$ 11.7 million in December 1920,\(^{126}\) while Guangzhou balance-sheet totals during the same period were only 6% thereof. Even if we allow for another 6% to account for CBIAC HK$ notes brought into the province by moneychangers and itinerant workers, we still have a figure that is considerably lower than previous estimates for the 1920s suggested.

Turning to the second approach, we find that average CBIAC note/cash ratios during 1900-1935 differed enormously. While Hong Kong registered 10.1, Tianjin was far behind with 0.25.\(^{127}\) This, in turn, points to immense variation in economic conditions and monetisation levels across China. Even assuming that the ratio in Guangzhou was closer to that of Hong Kong, the result would still be far below earlier estimates of currency substitution. In other words, when we multiply the 1920 cash reserve in Guangzhou (HK$ 209,318) by the average note/cash ratio nominally prevalent in Hong Kong (10.1),\(^{128}\) the result (HK$ 2.1 million) would amount to just 17% of CBIAC HK$ circulation volume in 1920 (HK$ 11.7 million). Allowing another 17% for private trafficking of CBIAC notes into Guangdong, produces a result (34%) that still falls well below Rawski's upper-end estimate of 66.6%.

In the final analysis, the balance-sheet totals of British banks in Hong Kong were only negligibly affected by anti-foreign agitation in 1925. This was not because anti-foreign sentiments in South China were less pronounced than in Shanghai. Rather, it is likely that swift action taken by Hong Kong authorities to restrict silver withdrawals managed to defuse an imminent run on British bank notes in the Colony. On the mainland, HK$ notes were not as readily redeemable, and their amount may have been much smaller than previously thought. In fact, British bank agencies in Shamian were the only locality in Guangdong where HK$ could be redeemed, but these agencies — like the entire foreign concession — were effectively blockaded by Chinese protesters through much of 1925.\(^{129}\)

The anti-British blockade proved so hermetic that even the US Consulate in Guangzhou was reported to have made strong protests before the GMD provincial government, because

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\(^{126}\) See CBIAC GL Ms 31519/54.

\(^{127}\) Interestingly, the Shanghai ratio (0.51) was closer to that of Tianjin than Hong Kong's.

\(^{128}\) Since it is plausible that part of the notes issued in Hong Kong crossed the border, the CBIAC note/cash ratio for the Crown Colony is in itself biased upward, and can only serve as a rough guide.

\(^{129}\) Orchard (1930), p. 258.
the strike committee had prevented some of its citizens from entering Shamian. The Consulate maintained that such restrictions contravened extra-territoriality and Sino-American Treaties. The GMD provincial government, on its part, quibbled that the restrictions had not been directed against non-British, but were in fact designed to prevent Chinese hotheads from infiltrating the foreign settlement with bombs. This degree of insulation shielded British banks in South China from some of the boycott effects that branches in Shanghai had experienced. However, despite the measures taken by its authorities, the Hong Kong’s economy as a whole was far from spared in 1925.

The swiftness with which the colonial authorities pre-empted a run on HK$ in South China is thrown into relief by the SMC’s mishandling of the riots in 1925. As soon as the faintest sign had suggested that the May Thirtieth disturbances were spreading south, the Hong Kong government imposed martial law and introduced a series of other draconian measures. It enforced strict censorship of the Chinese press; it mobilised the Colony’s Volunteer Defence Corps to patrol the streets; it banned silver and foodstuff exports; it prohibited Chinese residents from leaving the Colony with jewellery valued more than HK$ 5. Consequently, reports later emerged of an extensive police crackdown on valuables concealed in departing ships and outbound terminals, resulting in confiscation of goods and jewellery worth HK$ 1.6 million.

In the meantime, GMD propagandists in Guangzhou itself were calling on everyone to encash HK$ notes, or exchange them for Chinese notes in the Provincial Bank. Left-leaning GMD officials identified Hong Kong as the place where the British were most vulnerable. The workers’ walkout from Hong Kong escalated into psychological warfare and a comprehensive strike, which brought the Crown Colony to a standstill. As in Shanghai, a run on British banks was in the offing. But there was one principal difference in subsequent developments. Whereas there was no legal precedent for the Municipal

130 See story in Huazi ribao, 27 November 1925, p. 3.
131 Dorothy Orchard described the 15-months of strike and the Guangzhou blockade as ‘disastrous’ for Hong Kong – see Orchard (1930), p. 259.
132 The first measures of martial law had been declared as early as July 19 (four days before the Shaji Incident broke out) – see Ku Hung-tsing (1984), p. 851; see also ShengGang da bagong ziliao (1980), p. 316.
Council in Shanghai to come to the rescue of private banks, Hong Kong’s Governor General, Sir Edward Stubbs, intervened personally with sweeping emergency powers designed to shield the British banks from a wave of withdrawals.\footnote{Li Hong (1988), pp. 66-67; Orchard (1930), pp. 257-258.}

The Shaji Incident, which broke out on July 23, confirmed the worst British premonition. It precipitated a massive walkout of Chinese temporary workers from Hong Kong in protest against British use of force in the foreign concessions of Shanghai and Guangzhou. British banks in the Colony remained open, but were propped up by emergency regulations restricting maximum individual withdrawals of silver from the banks to 100 HK$ per day.\footnote{See Qian Yizhang (1987), pp. 40-44.}

Those hit hardest in the Colony were therefore Chinese-owned banks, which relied on the remittances of migrant laborers. By July, thousands of these workers had already deserted the Colony for Guangzhou, and some apparently managed to withdraw their deposits across the border.\footnote{North-China Herald, 27 June 1925, p.486; Tsang, Steve (2004), pp. 97-100.}

Chinese-owned banks and moneyshops in Hong Kong were effectively depleted of silver reserves following two serious runs in June and September, while in Guangzhou Chinese industrialists thrived by producing substitutes for foreign-made goods, and HK$ notes were for the first time trading on par with — and sometimes even below — GMD-issued banknotes.\footnote{Fung, Edmund (1991), pp. 50-53; on the par value of GMD-issued currency against HK$ banknotes – see North-China Herald, 15 May 1926, p. 327.}

Nonetheless, the British press in Shanghai tendentiously singled out Hong Kong as one place where the nationwide disturbances had been adequately dealt with. On 15 August 1925, an editorial in the \textit{North-China Herald} praised the firm action taken by Stubbs. In the face of bleak trade statistics that were emanating from the Colony, the newspaper averred that the Hong Kong government “should congratulate itself on the successful handling of the boycott”.\footnote{See North-China Herald, 15-8-1925, pp. 155-156; by 19 December 1925, however, the \textit{Economist} correspondent described Hong Kong’s plight as “desperate” [p. 1043]. He also complained that British trade in Hong Kong was “slowly being strangled”, while Japanese businessmen slipping through the boycott by buying off the Chinese strike committee [pp. 155-156].}
The standoff between the Guangzhou nationalists and Hong Kong ended formally in October 1926, when the GMD-led strike committee reached a comprehensive settlement with the British authorities. By then it had become apparent that the *North-China Herald* praise was premature, and that Sino-British relations were on the cusp of a new era. Predictably enough, the view from Britain — which would have had to shoulder the cost of military intervention if Hong Kong had been attacked — was much more sombre than the British expatriate press could portray.

On 22 May 1926, the London-based *Economist* captured the impending turnaround in British foreign policy with these words:

> The natural impatience and disgust of the European towards the excesses of the [Chinese] student agitation of last year has practically disappeared, and has given way to a more sympathetic spirit, which it may be hoped, will eventually secure a willing response from young China. Galling as it has been for the British merchant to suffer from the unjustified ban on his right to trade, [his] demand for military intervention has died away, and there is now a general feeling that the Home Government’s policy of patience and conciliation will ultimately prove to be the better course. It is fully realised that while the Chinese have shown little gratitude for the benefits of living in peace under British rule, they have had to put up with good many minor disabilities, which have developed a sense of soreness and resentment. There is a generally awakened desire to remove all cause for irritation...  

3.6 The Boycott Prequel of 1919

The historian Edmund Fung has described the anti-British agitation in South China during 1925-6 as the driving force behind the most effective boycott ever carried out by Chinese against foreigners; the May Thirtieth and Shaji Incidents sparked off a reaction in comparison with which “…the anti-Japanese boycott of 1919-1921 pales into insignificance”. Fung’s observation is of value because the anti-Japanese boycott, unleashed on the heels of Japanese territorial encroachments in Shandong and the resultant May Fourth or *Wusi* Movement (1919), has commanded far greater attention from scholars

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142 See anonymous report under the title “The Position of Hong Kong”. *The Economist*, 22 May 1926, p. 984.

143 Fung, Edmund (1991), p. 44.
than the events unfolding in 1925-6. Yet, at least insofar as quasi-foreign banknotes are concerned, both periods remain under-studied. 144

In fact, the run on British bank notes that the CBIAC Shanghai balance sheets of 1925-6 attest to could be interpreted as a ‘replay’ of a similar but more enduring boycott of Japanese bank notes that had begun in 1919. The origins of this earlier troubled episode in the chronicles of the Sino-Foreign encounter can be traced back to 17 May 1919 when — radicalised by anti-Japanese student agitation — Shanghai’s moneyshop guild announced that its members were to halt the clearing of quasi-foreign notes issued by Japanese banks, even though reliable Chinese paper money was hard to find. 145 At that point in time, however, the epicentre of anti-Japanese propaganda was in the North. Wusi activists had campaigned there for the boycott of Japanese goods, particularly in Beijing and Tianjin. In Shanghai, local silver dollar notes issued by two Japanese overseas banks — Yokohama Specie Bank and Taiwan Ginkō [Bank of Taiwan] — were highly visible, and had become one of the most pronounced targets for agitation by mid-May 1919. 146

The overall impact of the 1919 boycott of Japanese-issued notes in China proper can be inferred from the Yokohama Specie Bank [YSB] balance-sheet totals compiled in Table 3.2 below:

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144 Rinbara Fumiko’s highly localised case-study well illustrates the failure to address boycotts of quasi-foreign banknotes as one of the most significant characteristics of both Wusi and Wusa. Rinbara cursorily describes how students in Tianjin had tried to force merchants to encash Japanese-issued notes in 1919, but like other scholars does not discuss the consequences for Japanese banks in the city at all. See Rinbara (1983), p. 47. Notably, the first boycott against quasi-foreign banknotes in Tianjin had actually targeted the French-run Banque Industrielle de Chine as early as 1916. See Sheehan (2003), p. 82.


Table 3.2
Yokohama Specie Bank Select Mid-Year Balance-Sheet Entries, 1915-1923
Unit: GBP million

<table>
<thead>
<tr>
<th></th>
<th>1915</th>
<th>1916</th>
<th>1917</th>
<th>1918</th>
<th>1919</th>
<th>1920</th>
<th>1921</th>
<th>1922</th>
<th>1923</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes in Circulation</td>
<td>0.6</td>
<td>1.0</td>
<td>2.3</td>
<td>2.1</td>
<td>1.6</td>
<td>0.7</td>
<td>0.8</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Cash Reserves</td>
<td>2.2</td>
<td>2.4</td>
<td>3.3</td>
<td>4.2</td>
<td>4.1</td>
<td>4.5</td>
<td>3.5</td>
<td>3.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Deposits</td>
<td>16.3</td>
<td>25.0</td>
<td>33.7</td>
<td>66.0</td>
<td>53.5</td>
<td>56.4</td>
<td>50.1</td>
<td>50.6</td>
<td>47.9</td>
</tr>
<tr>
<td>Balance Sheet Total</td>
<td>32.4</td>
<td>42.5</td>
<td>64.3</td>
<td>115.9</td>
<td>124.9</td>
<td>139.0</td>
<td>101.9</td>
<td>99.7</td>
<td>109.3</td>
</tr>
</tbody>
</table>

Source: Bankers’ Magazine 1916-1924

Unlike Taiwan Ginkō, the YSB was an overseas bank whose note issue was almost entirely predicated on Shanghai and other branches in China proper. It is therefore particularly instructive to note that its circulation volume peaked in 1918, but fell by no less than 24% in 1919, and progressively diminished thereafter. The 1919 setback was much less pronounced when confined to YSB total deposits — those fell by just 19% in 1919, and remained fairly stable thereafter. The anti-Japanese climate in China is still less traceable in balance-sheet totals, which were largely determined by Japan’s overall trade volume with the rest of the world. Crucially, CBIAC figures are indicative of similar trends. Namely, the anti-British climate in 1925-6 affected note circulation volumes more than any other balance-sheet entry; CBIAC fixed deposit receipts were only temporarily affected by student calls on all Chinese to withdraw funds from British banks.

Nonetheless, student agitation did yield a long-term result in the YSB case. After 1919, several observers noted that the YSB issue in Shanghai had in effect been wiped out by nationalist campaigns.\(^ {147} \) In contrast, CBIAC note circulation volumes recovered swiftly after the Wusa setback. The difference in the durability of the boycott in either case may have stemmed from the turnaround in British policy after 1925, as opposed to intensified Japanese aggression and concomitant Chinese mobilisation against her banks in Shanghai.\(^ {148} \) Indeed, Chinese boycotts proved particularly thorny when pinpointed at one Power at a time. Since the early 20th century, Chinese campaigners had improved their ability to identify cracks in the Powers’ China policy. At height of the 1919 anti-Japanese

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\(^{148}\) The boycott of Japanese-issued notes reawakened in 1923 in response to Japan’s refusal to waive its territorial claims in Northeast China. See *North-China Herald*, 14 April 1923, p. 81.
wave, the Western expatriate community largely distanced itself from the fray. But in 1925-6, the campaigners so adroitly manoeuvred Britain into the dock, that the British expatriates in Shanghai could not but believe that a Bolshevist conspiracy was afoot to single them out from the French and Japanese.149

At the same time, student-led anti-foreign campaigns in 1919 and 1925-6 made the Chinese press turn its attention to quasi-foreign banknote issuance as an internationally anomalous monetary phenomenon that must be redressed if China was to rehabilitate the flagging reputation of its financial institutions, and achieve respect among the nations of the world. Calls on the Beiyang government to suspend foreign bank privileges began to be heard as from 1919, and articles lamenting the considerable discount which Chinese banknotes incurred in the marketplace were not uncommon.150

3.7 Conclusion

Although rarely discussed in depth by economic or business historians, the issue of convertible banknotes was one of the defining features of 19th-century British overseas banking. Established in both colonies and sovereign countries, these highly specialised banks underpinned the surge in global and intra-regional trade as from the 1830s, demonstrating impressive growth in some cases but damning vulnerability to currency fluctuations in others. The three principal British overseas bank in East Asia — commonly known as the Eastern Exchange Banks — came to play a decisive role in the formation of the Hong Kong and Straits Settlement currencies and — for some time — were the sole suppliers of paper money in these colonies. The same business rationale led these banks to disseminate locally-denominated notes beyond the colonies. Such issues were initiated in the treaty-ports of Siam, Japan and China, but the latter proved by far their largest and most durable market.

This chapter has focused on CBIAC, the second largest of the Eastern Exchange Banks. It explained how customarily high interest rates in mid-19th century Asia made note issues a lucrative pursuit for this bank, while highlighting the ways in which regulators at the British Treasury and Colonial Office sought to restrict any excess issues. CBIAC’s Hong

149 See, e.g., article by Arthur Sowerby, member of the Shanghai branch of the Royal Asiatic Society in North-China Herald, 8 August 1925, p. 1925; cf. Orchard (1930), p. 256.

150 See, e.g., Shen bao 27 November 1919, p. 6; Shen bao, 28 November 1919, p. 10; for articles in similar vein during the May Thirtieth Movement — see, e.g., Dongfang zazhi, vol. 22 no. 22, 25 November 1925, pp. 59-63; Dongfang zazhi, vol. 22 no. 24, 25 December 1925, pp. 59-63.
Kong branch was found to have crucial importance to the sustainability of the bank’s note circulation volume during the early 20th century, as the Straits Settlements government introduced a re-based legal tender. At the same time, notes disseminated in the Chinese treaty-ports, and denominated in either local tael or dollar units of account, served as an important auxiliary to the HK$ notes issued by the bank, particularly between 1911-1920. The prevalence of these banknotes in China was, however, affected by changing political conditions and the vagaries of the traditional monetary system.

The most significant finding that emerges from the CBIAC records — at least until more qualitative branch correspondence comes to light — is that British bank note circulation in Shanghai was dramatically set back in 1925 due to anti-foreign agitation. Repercussions soon hit South China, but a considerably different set of circumstances prevailed in Hong Kong at the time, shielding banks there from a similar fate. This chapter addressed the rise of modern Chinese banking and GMD regulation as elements that impacted on quasi-foreign note circulation and overseas banking at large, but concluded that the cataclysmic aftermath of the May Thirtieth Incident may have been the single most important factor in explaining why British banks were prepared to renounce many of their treaty-port privileges by 1935. This proposition differs fundamentally from previous analyses of British banknote circulation in Greater China, which tended to gloss over the implications of political upheaval during the mid-1920s.151

CBIAC’s note issue in East Asia makes for a complex story. In Siam, the notes were first welcomed and then rejected by the Rama Dynasty. In British Malaya, they were the first form of paper money to spread into the interior but have long since become a collector’s item. On Mainland China, they were never recognised by local authorities, and ultimately stamped out by the fabi reform of 1935. In Hong Kong, the CBIAC note issue was secondary to HSBC’s — the latter issue will be further explored in the next chapter. But, ironically, 1935 was also the year in which CBIAC HK$ notes finally attained legal tender status in the Crown Colony.152 In sum, CBIAC notes circulated across East Asia during the pre-war era in the liminal space stretching between legal to illegal tender.

152 King (1990), p. 31.
Chapter 4

The Hongkong Bank and its Early Note Issue in Shanghai, 1865-1911

Der Finanzmandarin Wan-mao-in ließ sich beigehn, dem Sohn des Himmels ein Projekt zu unterbreiten, welches versteckt auf Verwandlung der chinesischen Reichsassignaten in konvertible Banknoten hinzielte. Im Bericht des Assignaten-Komitees vom April 1854 erhält er gehörig den Kopf gewaschen. Ob er auch die obligate Tracht Bambushiebe erhielt, wird nicht gemeldet.

The financial mandarin Wan mao-in [Wang Maoyin 王茂荫] took it into his head one day to lay before the Son of Heaven a proposal which had the secret purpose of transforming the assignats of the Chinese Empire into convertible banknotes. The committee on the assignats, in its report of April 1854, severely rebuked him for this. Whether he also received the traditional thrashing with bamboo-sticks is not stated.

Karl Marx

4.1 Introduction

This chapter explains how banknotes issued by the Hongkong and Shanghai Banking Cooperation [HSBC] helped reshape financial markets in Shanghai during the late-Imperial era (1865-1911), and offset the deep-seated suspicion of paper money in China that even European thinkers like Karl Marx had been aware of. Drawing on local balance sheets and other primary sources, the chapter will demonstrate that note issuance by British banks in China proper was a quantitatively modest but potent financial instrument that helped minimise branch dependence on metropolitan capital injection, on the one hand, and on China’s intractable monetary system, on the other. Contrary to much of the received wisdom, the chapter argues that note issuance was a highly remunerative constituent of British overseas banking in Asia. It helped tap regional economies with little risk, but was equally significant as a touchstone for Chinese reformists.

Not long after its inception in 1865, the British-run Hongkong and Shanghai Banking Corporation — then more informally known as the Hongkong Bank — had become synonymous throughout East Asia with managerial acumen, a powerful network of connections and financial innovation.\(^{154}\) Although Britain’s share of the region’s trade progressively declined by the turn of the 20\(^{th}\) century, no other European-owned bank operating in East Asia could achieve comparable growth rates, or rival the Hongkong Banks’ leverage over indigenous sovereigns. In various capacities, HSBC [hereafter the Bank] came to play a significant role in the modernisation of money markets and credit instruments throughout Asia before World War I. It assisted the Japanese government to turn the yen into an Asia-wide currency and facilitated the country’s swift adoption of the Gold Standard in 1897.\(^{155}\) It was behind the issue of the first banknotes in Siam, and served as adviser to successive Chinese governments on economic development — to name but few salient examples.\(^{156}\)

Nonetheless, the public image of the Bank during the pre-war era was far from immune to controversy both at home and abroad. While consistently favoured by Colonial Office policymakers and British diplomatic legations, HSBC drew criticism from British jingoists and Chinese anti-imperialist activists on two separate counts.

In London and Hong Kong, HSBC often came under fire for what had been perceived as its intimate links with German firms in China, eventually forcing the Bank to accentuate its British identity and shed non-British directors.\(^{157}\) But if postwar realignments have long

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\(^{156}\) HSBC was first of the three European banks that issued banknotes in Siam. Its role in that capacity began on 15 November 1888, when the Bank’s agent in Bangkok, JRM Smith, tipped off Head Office that the Siamese Government would be prepared to experiment with paper notes “on a small scale”. See HSBC Group Archives [hereafter HSBC GA] Fl.1, “The Note Issue.”. The Chartered Bank of India Australia and China and Banque de L’Indochine followed HSBC’s lead only a decade later; cf. Conant (1927), pp. 604-605; on HSBC as advisor to the Chinese Governments see, e.g., Coble (1980), pp. 126-127.

\(^{157}\) See, e.g., a letter from J.O.P. Bland to the Hong Kong Chambers of Commerce, dated 19 February 1916, in which this controversial ‘Old China Hand’ demanded that the Chambers Secretary apply pressure on HSBC to dispel concerns among British expatriates concerning the Bank’s ties with the Duetsch-Asiatische Bank, and to “eliminate German Business” - in HSBC GA SHG II 183; for an incisive biographical sketch of Bland (1863-1945) – see Bickers (2004).
since relegated this line of criticism to historic obscurity, Chinese invectives proved more abiding. So much so, that even in post-Mao China one can still detect strains of antagonism toward HSBC amongst economic historians, who underscore some of the themes that have allegedly tainted the Bank’s pre-war legacy. These often include its perceived critical role in financing the opium trade; in establishing a monopolistic banking Consortium to corner Chinese government loans; in extracting indemnity payments from China; in manipulating exchange rates in Shanghai; and last but not least — in undermining the city’s indigenous banking sector.

At the other end of spectrum, new work published in recent years mainly by Japanese scholars has helped us concretise the debate over the nature of foreign banking in China’s treaty-ports during the late-Qing, often disabusing it of the abstractions of ‘high imperialism’ and the European ‘scramble for concessions’. Such scholarship has carried the field forward by relying on declassified local branch balance sheets and other firsthand archival material, rather than on lateral sources or press reports. This breakthrough owes much to Frank King, who had been commissioned to write the Bank’s story in 1979 and, inter alia, supervised a complex operation to salvage branch records from a decrepit

158 See, e.g., Wang Hongbin (2001), pp. 396-400; on the economic nexus which propelled the opium trade with China, and on its opponents — see Blue (2000), pp. 31-54; Moulder (1977), pp. 98-105.

159 Clarence Davis has described the Consortium as a foreign bank mechanism “...to guard against Chinese initiatives to improve the terms under which loans might be issued, to secure access to additional sources of capital, to improve a competitive stance or transform a rival into a partner, and ostensibly, to protect China from unsound loans...” — see Davis (1982), p. 254; it should be noted, in this context, that the total value of loans that HSBC had floated for successive Chinese governments was staggering - GBP 110 million. See JR Jones, “Brief Notes on the History of the Bank” in HSBC GA J11-16, f. 13; cf. Chen C. S. (1965), pp. 107-120; Baster [1977], pp. 184-189.

160 The defeat of Germany in 1918 and the liquidation of Banque Russo-Asiatique in 1926 effectively left HSBC as the sole foreign depository of Chinese Maritime Customs revenue, which had financed indemnity payments incurred after the Boxer Rebellion (1901) — see “Historical Notes” in HSBC GA J11-3-7.

161 Chen Guangfu, a leading Chinese banker and government advisor, was the most vociferous critic of HSBC’s predominance in the foreign exchange market in Shanghai. In the mid-1920s, he claimed that the Bank periodically dampened silver prices in the city to synchronise with China’s government foreign debt repayment schedule, thus unduly netting a profit of Tls 1.9 million — see Gao Yang (1981), p. 226; cf. Yang Yinpu [1972], p. 184.


163 Recent notable contributions by Japanese scholars to the research of foreign banking in pre-war China include Nishimura (2005); Yokouchi (1996); Hamashita (1994); Gonjō (1993); Yasutomi (2003).
warehouse in Shanghai. First published in 1987, King’s subsequent four-volume *History of the Hongkong and Shanghai Banking Corporation* [hereafter *History*] was hailed as a monumental achievement, winning praise from both business historians and China specialists the world over.\textsuperscript{164} In its scope, meticulous attention to detail and rich documentary underpinning, the *History* is a beacon of erudition that few other corporate chroniclers have equalled since.

Yet, partly due to commission requisites, the *History* is preoccupied in no small part with the *dramatis personae* that turned the Bank into a success story of epic proportions. In that sense, it is appreciably different from the new work on foreign banking in China, whose emergence it had made possible. The latter has since focused on capital flows between key branches of foreign banks, their liability makeup and linkages between trade balances and local business practices. Moreover, the expansive scope of the *History* inevitably led King to adopt what one reviewer described as “digressive style”.\textsuperscript{165} As a result, those readers who are aware of the specificity of the accusations levelled at the Bank by Chinese contemporaries and Marxian economic historians may not necessarily find in the *History* a coherent rebuttal.

This chapter will revisit one specific aspect of the Bank’s pre-war operation where scholarly opinions are similarly polarised, but that has so far remained in the shadow of other contentious issues: HSBC’s banknote circulation in the Chinese treaty-ports. More precisely, the study will examine whether note issue prerogatives enjoyed by the Bank hindered or stimulated the modernisation of China’s monetary system, how exactly banknote circulation was embedded in the Bank’s overall strategy, and whether it was a remunerative pursuit or not.

Chinese historians have invariably attributed great importance to quasi-foreign note issuance as a factor that retarded China’s economic development, and through which foreign banks scooped a shady windfall. Assertions to that effect had begun in 1958, and

\textsuperscript{164} King (1987); for reviews of the *History* in this vein see Thomas (1989) and Coble (1991).

\textsuperscript{165} The term “digressive” was used by Andrea McElderry in a review of the *History* she wrote for the *Journal of Asian Studies* – see McElderry (1991), p. 915. Her assessment of King’s work was otherwise laudatory; Marie-Claire Bergère commended King for observing “strict academic standards” in a commissioned work, but pointed to the “missing perspective” in King’s analysis, i.e. how the Bank is depicted in Chinese sources. See Bergère (1989b).
have scarcely relented since. In a representative compilation, co-authored as recently as 2002 by a few of China’s best-known economic historians, Zhang Guohui described those banknotes as “...a vital means with which to plunder the peoples of colonised and semicolonised lands”. Another voluminous survey of the history of banknotes in modern China, published under the auspices of the People’s Bank of China in 2001, accused HSBC of having used ‘Schadenfreude tactics’ (cheng ren zhi wei de fang 法人之危的方法) to expand its note circulation, i.e. disburse more notes over the counter whenever rival Chinese banks faced liquidity crises. Notably, both compilations draw exclusively on secondary sources or press reports to substantiate their claims.

This chapter charts the middle ground between the assertions often made by Chinese scholars and King’s summary dismissal of them. The following section (4.2) will plot, in a nutshell, the business rationale behind the Bank’s banknote issue, and how it was perceived within the tapestry of Chinese late-Imperial economic discourse. With particular emphasis on Mainland China, the third section (4.3) will explore how the British Treasury regulated HSBC banknote issuance. The fourth section (4.4) will analyse the relative importance of banknote issuance for the Bank’s Shanghai branch. Where quantitative data from HSBC branches have not been preserved, the arguments will be illustrated using comparable statistics from the second largest British bank in East Asia at the time — the Chartered Bank of India Australia and China [CBIAC]. Finally, the chapter will try to reassess the historic significance (or insignificance) of HSBC’s banknote issue in China proper between 1865-1911 (4.5).

166 Xian Ke was the first Chinese scholar to address foreign note issuance in a full-length monograph. His main thesis was that foreign banks in China duped undiscerning Chinese note bearers because they kept only threadbare reserves against their note issue. See Xian Ke (1958), pp. 61-22; for similar tirades — see, e.g., Wei Jianyou (1955), pp. 207-213.
169 See for example King (1990), pp. 26-27.
170 Although it had a longer history in the region, CBIAC became the second-largest British bank in East Asia after the establishment of HSBC. Nonetheless, both banks operated on much the same principles and were regulated by the same Whitehall ministries. More quantitative data on the China branches of the Chartered Bank is available because, unlike HSBC, its Head Office has always been located in London. Consequently, records sent thereto from China branches escaped the sort of degradation wrought on local HSBC records by the Pacific War.
4.2 Circulation Patterns: Cause and Effect

First printed in London and launched in Shanghai circa 1866, HSBC's banknote issue in China proper was part of its distinctly East Asian arm — a business function subsumed locally, and largely independent of conditions in the London capital markets. In that sense, the note issue was coterminous with the secret of success of the Bank in the pre-war era: with its Head Office firmly set in Hong Kong, HSBC could lay down funds, that had been mobilised within Asia. In other words, the Bank could channel silver-pegged assets to highly remunerative local outlets without having to remit gold-pegged capital from London, thereby exposing itself to unnecessary exchange rate risks. To be sure, discounting exchange bills in multiple currencies and standards — i.e. the finance of Eurasian trade — continued to be the locus gravitatis of Bank operations. But unlike many of its London-based competitors, HSBC had a stronger local arm to fall back on. Disbursing notes rather than silver coins over the counter was one auxiliary means by which the Bank could increase the working capital of Asian branches with little effort.

Overall, the popularisation of notes by foreign banks in mid-19th century East Asia was inextricably linked with the growth of a much more important local banking activity: the pooling of fixed deposits. In China, foreign banks offered notes on demand with two objectives in mind. First and foremostly, paper notes whose value was on par with conventionally used metallic units, and which were guaranteed on demand by prestigious foreign establishments, attracted treaty-port dwellers bent on avoiding high assaying costs. Given the chaotic state of China's metallic currencies and the lack of reliable financial institutions, providing a readily convertible means of payment was an effective way of building up a retail client base in search of secure depository for its wealth. In the second instance, the note issue was a source of revenue unto itself, since it was based on fiduciary principles — i.e. the metallic reserve held against notes outstanding was invariably smaller than their face value. This meant that the Bank could free up more liquid capital, which it could lend on at call, and thereby net an interest rate margin.

171 Albers Pick's famous numismatic catalogue suggests that the earliest note HSBC circulated in China was denominated 1 Shanghai Tael, and printed by Barclays & Fry in London – see Pick (1990), vol. I, p. 269.
173 See Jones (1990), pp. 33-34; the note issue was independent of the Bank's role as underwriter for Chinese government loans floated in London or, indeed, the volume of trade between the Britain and China.
The fiduciary principles in the HSBC ordinance were partly inspired by 19th-century Scottish banking practices, whereby private banks enjoyed lucrative note issue prerogatives. But in Hong Kong, HSBC’s strategy turned out to be more ambitious than the Scottish model had foreshadowed. Victor Kresser, a Swiss expatriate who served as the Bank’s first Chief Manager, sought for example to take over money supply in the Colony altogether by bidding for its ailing Mint in 1866. Kresser faced strident opposition from the treasury in London, which precluded any form of monopoly. Decades later, relations between the Treasury and the Bank remained strained over similar issues. In fact, relations might have boiled over if not for the Colonial Office’s resolute advocacy of the Bank’s role as a stabilising force in the economic fabric of Hong Kong, and the persistent reluctance of the Colony’s government to administer money supply after the Mint had been dissolved.

While the Bank’s increasingly potent position as supplier of fiduciary money across East Asia prompted prudence amongst Treasury regulators in London, it was by no means lost on China’s Imperial bureaucracy. The growth of foreign banking in Shanghai had generally stimulated late-Qing reformers like Zhang Zhidong and Zhang Jian to memorialise the Throne on the acute underdevelopment of China’s financial sector. The reformers complained that without institutions operating on foreign bank principles and comprehensive currency overhaul, China would be unable to sustain a much-needed military and industrial build-up. They noted with chagrin that China’s own financial institutions were not cut out for such a task, because they were too diffuse. Traditional, privately-owned moneysops had been regularly issuing paper money in China from at least the late-Ming, but its circulation was constricted along regional lines; it was subordinate to wide variations of silver fineness, and suffered from mass forgeries.

Because they were considered more stable, Scottish joint-stock banks retained many of the issue prerogatives that their English counterparts had lost by the mid-1840s, e.g. disbursing small denomination notes; on the Scottish model of note issuance – see Conant (1927), pp.142-170, 590-593; Checkland (1975), pp. 381-384, 435-439.


For a general survey of late-Qing economic reforms see Ch’en, Jerome, (1980), pp. 120-123; on Zhang Zhidong’s economic standpoint see Li Xizhu (2003), pp. 176-192; one of Zhang Jian’s most formative experiences as an entrepreneur was his inability to raise sufficient capital for his first textile mill in 1898, which persuaded him of the urgent need to set up new financial institutions – see Zhu Zhijian (1972), pp. 20-23.

By the late-1890s, the protestations of reformers paved the way for a mushrooming of government-run provincial banks across China. These banks tried to lay down roots primarily by circulating paper notes modelled on novel designs and printing technology that were inspired by the foreign bank notes, rather than by China's own traditional drafts (piaotie 票帖). Nonetheless, Chinese modern banks often fell prey to the short-sightedness of their political patrons, who merely harnessed branch managers to expand their revenue base. Figuratively speaking, the first Chinese banks were made to jump the queues: they had drawn on note issuance to attract metallic money long before they could claim a solid customer base, and their management was dismally interwoven into that of government ministries.

Quantitative economic data assembled from late-Qing sources are usually riddled with inconsistencies. Yet, the trends in Figure 4.1 may still shed light on the inner workings of the early Chinese banks, when compared with individual foreign banks, represented below by CBIAC.

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181 Figure 4.1 draws on data recently compiled by Cheng Linsun on the capital of early Chinese banks (see note on Figure sources below). Readers should nonetheless be aware that Cheng's figures on Chinese bank capital are substantially higher than, for example, the ones presented in Hirase (1942), pp. 361-362. In addition, the data do not seem to incorporate Chinese provincial banks, where overprinting of notes was endemic — see for example Huang Jianhui (1994), pp. 97-100. Whereas Cheng estimates total Chinese bank note circulation in 1911 at 20 million dollars, Huang places his late-Qing estimate in the vicinity of 48 million dollars.
Figure 4.1

Notes Outstanding as Percentage of Total Liabilities, 1898-1911

Source: The average ratio of notes outstanding to total liabilities for a cross-section of modern Chinese banks is calculated from Cheng Linsun (2003) Table 1.2, p. 34; the parallel ratio for CBIAC Shanghai branch is calculated from CBIAC GL Ms 31519.

Broadly speaking, Figure 4.1 shows that the average ratio of notes outstanding to total liabilities for Chinese banks between 1898 - 1911 was 7.8 %, whereas it never exceeded 5.4 % in the Shanghai branch of the Chartered Bank (this maximum value was recorded for December 1904). This dissimilarity is thrown into relief when we revise the Chartered Bank data temporally, in order to account for the fact that its second period of note issuance in Shanghai began in 1886 — much earlier than was the case with the first Chinese modern banks. For the entire period between 1886 – 1911 the average Shanghai branch ratio was actually as low as 3.5%.  

182 The first note issuance period of the Chartered Bank in Shanghai had begun in 1859, but was withdrawn a decade later due to lack of demand. The issue resumed 1886 — see CBIAC GL Ms 31519/1-26.
In absolute terms, Chinese bank circulation volume had reached 20.7 million dollars by 1911, with an annual growth rate of 80% between 1897 - 1911. In 1911, the average circulation of notes outstanding per bank in this sector was 1.2 million dollars. The Chartered Bank circulation volume in China proper only reached 700,000 dollars the same year, although it was one of the largest foreign banks operating in the region.

Structural disparities between the two sectors partly derived from geographical distribution: Chinese banks had, of course, much more leeway to popularise notes in the vast hinterland that stretched beyond the confines of the treaty-ports. But the disparities may have also derived from overemphasis late-Qing reformers had laid at banknote issuance as a definitive constituent of modern banking. The reformers were quick to note how China’s institutional weakness invited foreign banks to recoup profits from note issuance in the treaty-ports, but failed to heed attendant reserve requirements, which set foreign banks apart from traditional financial institutions. Zheng Guanying epitomised this partiality. As a comprador for Butterfield, Swire and Co., he witnessed foreign business practices from within. Turned an official, he commented with disdain that the proliferation of quasi-foreign notes was merely a result of mercantile inertia and cronyism (xunjing 畜情) in China’s financial sector.

Zheng and others called on the Throne to foster government-run banks to counter foreign economic inroads. But their frame of references and argumentation was not materially different from that of Qing bureaucrats — like Wang Maoyin — who had previously tried to persuade the Manchus to overprint paper money as panacea for the dynastic decline. Nonetheless, the traditional monetary discourse did change to the extent that the early reformers had been castigated during the 1850s, whereas reformers in the 1890s could make more daring suggestions — like the adoption of a gold standard — with impunity.

In the treaty-ports, foreign banks were protected from Chinese government intervention by virtue of their extraterritorial status. Foreign banks rarely opened branches elsewhere, with the exception of politically-sensitive Beijing.


Within the Imperial bureaucracy, the chief proponents of banknote issuance between 1810s-1830s had been Cai Zhiding 蔡之定, Wang Liu 王鎏 and Xu Mei 许楣, but their views were rejected by mainstream critics. More cautious policies were proposed by Wang Maoyin in 1851, resulting in a botched issue of Imperial paper money between 1853-1862. See Ye Shichang (1963), pp. 36-43; Yang Duanliu (1962), pp.104-113. By the turn of the century, Zheng Guanying and several other Qing officials argued that China
The most trenchant of Zheng’s commentaries on current affairs prescribed concrete measures to stem the Qing’s relinquishment of macro-economic reins. As early as 1873, he suggested for example that Sichuan-grown opium be promoted as substitute for imported opium from India, and that Imperial consulates be opened in Singapore and San Francisco to tap Overseas Chinese wealth.\(^{186}\) On monetary issues, he was unequivocal: China’s monetary fragmentation could be solved only if decisive government action was taken to stamp out debasement and disallow casting by provincial officials or private businessmen.\(^{187}\) Tellingly, he pinned down HSBC’s success in China to its ability to raise capital from both Chinese and foreign shareholders; its strategy to entice petty cash depositors from all walks of life; and the way in which it employed interest-free proceeds from banknote issuance to on-lend.\(^{188}\)

In the interim, the dilemma for the thinly-endowed Throne remained the same: how to retain Imperial revenue without unleashing inflation that would provoke popular resistance, and without surrendering more central powers. Late-Imperial body politic was often blighted by indecision and contradictory thrusts that precluded lasting synergy between the state and private spheres in the realm of money. By the mid-19\(^{th}\) century, perhaps earlier, this shortfall had opened up a gaping loophole through which privately-funded British trading houses and Anglo-Indian financial institutions could thrive on China’s coastline.\(^{189}\) Ultimately, it was the affluent executives of these treaty-port firms, the *taipans*, who guaranteed that the eastern thrust of Her Britannic Majesty’s gunboats, would remain economically sustainable.\(^{190}\)

Though they benefited from China’s economic malaise in the short-run, British financiers and their lobbyists in the diplomatic missions had good reason to be wary of a complete monetary nemesis that might eventually project on the prosperity of the treaty-ports.\(^{191}\) In

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\(^{189}\) See Elvin (1999), *passim*.

\(^{190}\) McLean (1976), pp. 292-293, 300-304.

\(^{191}\) Foreign banks in China habitually complained about the chaotic state of China’s currency, but the silver-convertible notes they issued were nothing more than a palliative designed for use within specific treaty-ports.
1908, for example, the British Legation in Beijing informed the Foreign Office that “[The] Shanghai General Chambers of Commerce has, for some months past, been concerned at the issue of dollar notes by Chinese banks without any restriction or control on the part of the government”. The Chambers then approached Shanghai’s Taotai, the once all-powerful prefectural commissioner, to clarify the restrictions under which moneysops and banks were entitled to issue notes. The Taotai, on his part, was indignant about the fact that foreign banks in the city refused to accept Chinese banknotes of whatever provenance, other than those issued by the Imperial Bank of China. Somewhat confused, he replied that — although unenforced — government regulations restricting unbacked note issues were in effect. Consequently, the British Legation decided to join forces with the foreign banks in applying pressure on Prince Qing and the Board of Finance (duozhi bu) to draw up measures for stricter control of China’s banks.

In a subsequent statement, the Legation did not mince words in an effort to rouse the Board of Finance to action. Observed from the foreign enclaves in the treaty-ports, the severity of the situation in the periphery was compelling. It intensified what had already been seen as an intractable currency system:

...[It is reported that] the Provincial Bank at Hankow, of unknown capital, has a note circulation of over 20 million dollars, that the private bank at Shanghai has issued notes equivalent to its paid-up capital, that another at Hangchow has notes of a face value more than three times in excess of its paid-up capital, and that two other institutions at Soochow and Nanking, with no paid-up capital but with a guarantee from the provincial government, have placed in circulation notes of an aggregate face value of over 2 million.

It should be pointed out that the good reputation that the IBC still enjoyed among foreigners at that stage was due to the fact that the bank’s patron, Sheng Xianghui, had

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partly modelled it on the HSBC in 1897, despite concerns raised by Zhang Zhidong and opposition from some Zongli yamen 總理衙門 officials fearing "excessive" private ownership. The IBC was China’s first limited-liability bank, the first to employ foreign staff and the first of many Chinese banks to order notes from overseas printers. In conformity with early HSBC guidelines, IBC’s total banknote issue was at no time to exceed paid-up capital, and one third thereof was to be covered by a cash reserve. However, fragmentary balance-sheet data suggest that this stipulation may not have been enforced after 1906.

Imperial attempts at regulating banks and currency in China came too little, too late. When financial regulations were finally promulgated, the survival of the Dynasty had already been predicated on synarchic pacts with the European Powers, so that the issue of quasi-foreign money or restrictions on foreign banking in general were hardly broached. The Mackay Treaty signed between Britain and China on 5 September 1902 included, for example, an Imperial pledge to coin uniform currency “...which shall be legal tender in payment of all duties taxes and other obligations throughout the Empire by British and Chinese subjects”. However, the Treaty made no reference to banknote issuance.

If anything, muffled protests against foreign bank prerogatives served as apologetics for the intractability of Chinese banknotes emanating from the periphery. A 1908 British Consular Report reported, for example:

The issue of notes has been resorted to both by provincial governments and private banks as a means of compensation for the loss of profits occasioned by the restrictions imposed by the Central Government on the output of the mints...

The issue has been defended by the Chinese on the plea that it is not fair that the foreign banks should have a monopoly of the issue of bank notes, but this plea ignores the fact that neither the issues nor the

\footnote{119}{Zhongguo di yiji yinhang (1982), p. 157; on Chinese bank notes produced by foreign printers – see, e.g., Huang and Wang (2004).}
\footnote{120}{Feuerwerker (1958), pp. 230-231, 233, 240 (Table 24); Zhongguo di yiji yinhang 1982: 28-29.}
\footnote{121}{Huang Jianhui (1994), pp. 100-104.}
\footnote{122}{Wagel (1915), p. 83; Hall (1921), pp. 20-23.}
reserves of the native banks are known with any certainty...[In] the case of some at least of the native banks now freely issuing notes, every principle of sound banking as recognised in Europe or America is violated, and that neither cash nor readily convertible security is held by these banks against their note issues. The foreign banks may therefore be acquitted of the absurd charge of trade jealousy, which has been brought against them for refusing to accept such notes freely...199

Similarly, the Waijiao bao quibbled in September 1909 that foreign banks could issue notes in China scot-free, only because Chinese merchants did the same without heeding sound reserve policy.200

A shift in attitudes might be discernable only in a July 1910 Guofeng bao report indicating, for the first time, that the Board of Finance was genuinely concerned about the spread of Russian bank notes in Mongolia, and planned to set up branches of the Ta-Ching Government Bank (Daqing yinhang) there in order to disseminate Chinese banknotes.201

By then, however, Chinese and foreigners alike had realised that there was little substance behind the reformist presumptions of the Qing government. In February 1910, William D. Little, Chairman of the Shanghai Chambers of Commerce concluded — based on advice received from the foreign banks — that Qing monetary measures were simply inadequate.202

The last reformist salvo was heard in June 1910, when the American Legation in Beijing translated yet another Board of Finance memorial urging the Throne to ban all banknotes


201 See Guofeng bao vol. I no. 16 (17 July 1910), pp. 103-104.

202 See Little to the Shanghai Consul-General, Sir Pelham Warren, 7 February 1910, and Müller to Grey, 6 May 1910, in PRO FO 371/856, ff. 240-241, 227-228; Qing reformers tried to enforce a sweeping 40% cash reserve requirement against all private Chinese banknote issues. This percentage was higher than the reserve the British Treasury nominally required of British banks in China (33%). Unlike British banks, however, domestic banks did not keep government bonds as additional security.
except those issued by the Imperial Bank of China. But the directives emanating from Beijing were hopelessly contradictory, as an edict from the previous year permitted privately-owned moneysops to continue issuing notes to clients, provided that they were backed by five mercantile guarantors. Good intentions notwithstanding, neither edict could have been implemented on the ground by a rapidly atrophying central authority.

4.3 The Evolution of Note Reserve Requirements

Colonial currency regulations imposed in the mid-19th century fairly lenient reserve requirements against note issues by British overseas banks. At times, regulations could be inconsistent, and oversight diffuse. In the grand scheme of things, the Lords Commissioners of the Treasury in Whitehall personified the conventional wisdom of regulatory experience accumulated on the British Isles. Experience in Europe taught that private banks must be forced to keep coin reserve in proportion to the amount of banknotes they issued, and this rule was to be applied to the colonies too. However, quite often, monetary deviations from European norms had to be accommodated. The case for regulatory adjustment was made, in the first instance, by those who were more in tune with local realities — i.e. colonial and dominion governments. The Secretary of State for the Colonies was their effective channel of communication with Treasury regulators. Since the East Asian treaty-ports were not strictly under the Secretary’s jurisdiction, the Foreign Office and diplomatic corps had to be consulted too, when it came to the issue of quasi-foreign notes in China.

British overseas banks were generally expected to keep a liquid cash reserve on the order of 1/3 of their notes outstanding in the treaty-ports. However, in the absence of widespread telegraph facilities or robust metropolitan inspection, local branches were under-regulated until the late 1890s, and this guideline was seldom enforced there. The Hong Kong

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203 See pamphlet dated 22 June 1910 in HSBC GA SHG 1 – 53; on the Imperial Bank of China, which was established in 1897 and partly modelled on the HSBC – see Feuerwerker (1958), pp. 225-241.
204 See translation of Imperial Edict dated 22 June 1910 in HSBC GA SHG 1 – 53.
205 CBIAC, for example, designated a note reserve in Shanghai only in 1928. Until then, there was only one metallic reserve to support local liabilities, but its ratio was effectively at branch managers discretion — see HSBC GA Ms 31519/1-101. Neither do early HSBC records from Shanghai attest to the existence of a special note reserve. By the same token, the overall metallic branch reserve was not to fall below 1/3 of the value of local current accounts — see e.g. Allen and Donnithorne (1954), p. 112. The CBIAC Shanghai balance sheets
Ordinances, under which HSBC was incorporated, allowed the Bank to keep a single note reserve in its Hong Kong Head Office. In theory, therefore, banks headquartered in London were at a disadvantage because they were expected to maintain overlapping reserves to meet contingencies both in Hong Kong and in their other Asian branches.\textsuperscript{206}

But when it came to enforcement, the Treasury was sidetracked by minor issues. For example, the Treasury persistently opposed the dissemination of notes in small denominations (under 5 silver dollars), and subjected note issuance as a whole to double — and in HSBC's case — unlimited liability, in order to protect undiscerning bearers of little wealth.\textsuperscript{207} This principle was relatively easy to apply in Hong Kong and the Straits Settlements. Yet, the Treasury was apparently uninformed as to what was happening in the treaty-ports, where British banks violated the stipulation by disseminating 1-tael and 1 Mexican dollar notes (see Appendix 2.1).

The failure of the Oriental Banking Corporation [OBC] in 1884 — the oldest and hitherto largest British bank in Asia — was an important catalyst for intensifying Treasury regulation of overseas banks during the 19\textsuperscript{th} century.\textsuperscript{208} OBC left hundreds of clients around the world clamouring for compensation. In Ceylon, where it had a particularly large note circulation, the crisis threatened to destabilise much of the colonial economy. Ceylon's governor therefore decided to guarantee the issue, setting a precedent for official protection of private note issues at which the Treasury fretted.\textsuperscript{209}

The Treasury was now compelled to step up its scrutiny of far-flung territories to avoid a repetition of the Ceylon crisis. One upshot was that local coin or bullion reserves to support note issuance overseas were no longer deemed sufficient. When, in 1889, HSBC tried to gain \textit{ex post} recognition from the Treasury of its branches and note issuance outside Hong Kong suggest, however, that this guideline was not applied uniformly. On under-regulation — see also the \textit{History}, vol. IV, Preface, ff. xi-xli.

\textsuperscript{206} Treaty-port notes had to be readily redeemable in Hong Kong too, hence the implicit overlap relative to all British banks except HSBC; figures published in the \textit{Straits Settlements Government Gazette}, vol. 32 no. 33, 10 June 1898, p. 665 suggest that, at least until the turn of the century, CBIAC was expected to maintain locally a bullion reserve of up to \(1/4\) of its notes outstanding in Singapore and Penang, while HSBC drew on its Hong Kong reserve to cover its note issue there; cf. the \textit{History}, vol. I, pp. 120-122.

\textsuperscript{207} Double and unlimited liability meant that note bearers were to receive preferential treatment, compared with other debtors, should the issuing bank fail. Thus, bearers could make a commensurate or unlimited claim against stakeholders' private property, if the bank was stripped of all its assets and unable to redeem notes.
Kong, the Treasury presented a new condition: from now on the Bank was to deposit with trustees “securities specially appropriated to cover its note issue”. In practice, the Treasury’s new guidelines entailed an additional note reserve to the metallic one, to be made up of tradable assets under lien to the colonial government. Furthermore, the reserves would now total 2/3 of the circulation volume — almost halving potential profits accruing from the fiduciary (read: uncovered) portion of the issue.

Differences soon emerged between HSBC and the Treasury as to what assets could be designated as security. The Bank was naturally inclined to present idle resources: it offered over 1.1 million dollars of the 2.5 million required in title deeds and private company bonds, which it had received against loans or purchase of branch premises. The remaining 1.5 million dollars were to be covered by Chinese Imperial government bonds, which paid relatively high dividends, but hinged on the shifting political fortune of the Manchu Court. The Treasury was unimpressed: it threatened to have the Colonial Office suspend the Bank’s incorporation ordinance unless a different portfolio of securities was presented. Faced with a near ultimatum and potential ramifications in the future, the Bank had to give in. In August 1890, it presented a new portfolio, which the Treasury could sanction: title deeds were to be replaced by Indian Government rupee bonds.

Until the 20th century, the China issue was not specifically addressed by the Treasury, because it was still insignificant as a share of the Bank’s total issue. This was because of two very different reasons. Primarily, Chinese suspicion of paper notes had roots dating as far back as the 14th century, and meant that treaty-port demand for this medium of payment

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208 On the collapse of Ceylon’s coffee plantations, which brought down the Oriental Banking Corporation — see Bandarage (1983), pp. 77-79.
210 See HSBC Chief Manager G.E. Noble to J. Stewart the Hong Kong Colonial Secretary, dated 8 Jun 1889, in PRO CO 129/241, ff. 621-624.
211 See Treasury letter to Under Secretary of State for the Colonies, dated 22 Feb 1890, in PRO CO 129/248, f. 273; as from the 1900s, similar bond purchases were imposed to secure the note issues of all the other British banks in Asia. Nonetheless, since the bonds bore interest, the new reserve of securities was different to the unremunerative metallic one.
212 See Treasury to Under Secretary of State for the Colonies, dated 18 July 1890, in PRO CO 129/248, ff. 295-296.
213 See Treasury to Under Secretary of State for the Colonies, dated 4 August 1890, in PRO CO 129/248, ff. 299-300.
trailed far behind the vigorous monetisation that typified Hong Kong and the Straits Settlements.\textsuperscript{214} Apart from that, the British banks operating in East Asia were strategically concerned with the entrepôt trade flowing through the colonies. The banks, therefore, allocated a smaller portion of their global issue quotas, set by the Treasury, to the treaty-ports.

The China issue became a strategic factor in British Exchange Bank thinking only in the early 20\textsuperscript{th} century, when it served as a counterweight to receding circulation volumes in Southeast Asia. In 1902, moves by the Straits Settlements to replace the three private banks of issue — HSBC, CBIA and the Mercantile of India [MBI] — with a sterling-pegged governmental currency came to fruition. A gold standard for the Straits had been on the drawing board in conjunction with a government issue a decade before, but was stonewalled by the three Eastern Exchange Banks until then.\textsuperscript{215} Similar moves to introduce a governmental currency did not materialize in Hong Kong because its economy had been much more intimately linked with the silver-based Chinese economy. But perhaps more crucially, HSBC executives enjoyed an unusual rapport with many of the Colony’s governors — a fact which may have clinched the survival of private banknote issuance there.\textsuperscript{216}

To what extent was the loss of the Straits banknote issue a blow to the British banks? A proper answer would require an analysis of the profits accruing from local note issuance. Fortunately, some editions of the \textit{Straits Settlement Government Gazette} recorded the reserves that the banks assigned for their local issue by virtue of an Order-in-Council, whereas reserves against the China issue were never specified in \textit{Hong Kong Blue Book}


\textsuperscript{215} Frank King has argued that HSBC had opposed the introduction of the Straits legal tender due to concerns that its notes could not be withdrawn quickly enough there to satisfy the demand for notes in Greater China – see the \textit{History}, vol I, p. 487. This explanation overlooks the considerable profits made by HSBC on the Straits issue, as well as its proportionate volume, as compared with the transient Lunar New Year demand for notes in Hong Kong. The opposite may have been true: HSBC worried that slack demand in Hong Kong and the Chinese treaty-ports might not be appropriate recompense for the loss of its Straits issue; for a detailed analysis of the Eastern Exchange banks’ opposition to the monetary reforms in Straits – see Chiang Hai Ding (1963), pp. 355-357 and Nelson (1984), pp. 190-197, 223-229.

\textsuperscript{216} Exactly how the different shades of governance in Hong Kong and the Straits Settlements played out in the monetary sphere is an under-studied question.
aggregates. In August 1898, for example, HSBC assigned “unspecified specie and securities” totalling S$ 1.6 million against S$ 4 million of note circulation in Penang and Singapore. This amounted to a 40% cover — 26% less than the statutory reserve imposed on the Bank’s issue in Hong Kong. It is therefore safe to assume that the reserve ratio was much lower in principal branches than in the Bank’s Hong Kong headquarters, and that local profit margins were similarly wider there.

The point can be further illustrated by using in-house data that is available for CBIAC. In 1898, this bank had a total reserve of S$1.3 assigned against just under S$ 4 million in circulation. This amounted to just 33% cover for the local issue, of which only S$ 830,000 was metallic. With two-thirds of the issue practically uncovered, and allowing for a moderate interest rate of 2.5% — the bank was in a position to garner a gross profit of S$ 80,000 annually, if it channelled the fiduciary portion of the proceeds to its borrowing clients. When converted to sterling, profits accruing from the Straits issue alone constituted as much as 5% of CBIAC’s total profits that year.

Developments in the Straits Settlements at the turn of the century were compounded by the loss of smaller markets for banknotes in Japan and Siam, as governments there decided to revoke foreign bank privileges. HSBC’s note circulation in the Japanese treaty-ports of Kobe and Yokohama never attained much importance, but Bangkok had held out for some time the potential for large circulation volume. HSBC was the principal European bank entrusted with paper money supply in Siam — the Chartered Bank and the Saigon-based Banque de L’Indochine played a much more modest role. In July 1902 all three banks were asked to withdraw their issue, which by then had amounted to about Ticals 2.5 million in total.

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218 Ibid.; for CBIAC, the Gazette provides a breakdown of the reserve: S$ 830,000 in silver dollars deposited with the Straits government, S$ 237,000 worth of Japanese government bonds at 5% p.a. stored in Singapore and S$ 266,000 worth of British dominion bonds at 2.5% p.a. held by Crown Agents in London.
219 CBIAC’s net published profits are listed chronologically in Jones (1993), Table A5.1.
220 See laconic reference to the Bank’s Bangkok notes in HSBC GA Fl.1, “The Note Issue”; CBIAC notes in Bangkok were first introduced in 1898, and this bank’s local circulation volume was about Ticals 400,000 by 1902 – see CBIAC GL Ms 31519/15; the substantial issue of Banque de L’Indochine in the city began a year later but declined immediately thereafter. Local circulation figures in 1902 were given as FF 865,000, which were then equivalent to about Ticals 430,000. See Gonjó (1993), pp.181-182.
The issue quota set by the British banks for China rose immediately after they realised that they were about to lose Southeast Asian note markets. As early as 1899, HSBC Head Office in Hong Kong informed the Shanghai branch that it had revised the cap placed on the circulation of locally-denominated notes in the Mainland from 1 million to 1.5 million dollars – 2/3 of which allocated for Shanghai. But despite the increase in HSBC circulation volumes on the Mainland, metallic and bond reserves that were meant to cover the issue remained in Hong Kong. In the absence of specific Treasury guidelines on China, the Bank had simply taken a calculated risk that it would be able to withstand possible redemption waves with minimal reserves.

Toward the end of the 19th century there was another important turning point in Treasury policy, which would counterweigh the gradual withdrawal of notes in the Straits. In 1898, the Treasury allowed HSBC’s note circulation to exceed the Bank’s paid-up capital for the first time, if the Bank was prepared to put up 100% metallic cover. The concession was made because the Bank and its proponents in the Hong Kong government argued that sudden demand spurts for notes in the Colony shortly before the Lunar New Year could only be met with a special ‘excess issue’. From then on, the Bank’s total circulation quota grew according to a set pattern, whereby the ‘New Year’ argument would be used repeatedly to incorporate previous ad hoc excess issues into the authorised one, while setting new excess caps for the future. This resulted, as from the end of the Imperial era in China, in total circulation levels that were far greater than paid-up capital, but backed by a larger metallic reserve.

The evolution of reserve requirement imposed by the Treasury on the Bank during the late-Qing are summarised in Table 4.1 below:

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221 See S/O (‘semi-official’) memorandum from Head Office to Shanghai, dated 3 November 1899, in HSBC GA SHG I-51.

222 The Cantonese population in the colony increasingly resorted to notes rather than traditional silver ingots for the traditional debt settlement that accompanied the Lunar New Year.

Table 4.1
HSBC Note Issue: Reserve Requirements 1865-1906

<table>
<thead>
<tr>
<th>Year</th>
<th>Metallic</th>
<th>Bonds</th>
<th>Fiduciary</th>
<th>Excess Issue</th>
<th>Max Total Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1865-1888</td>
<td>2½</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>7½</td>
</tr>
<tr>
<td>1889-1891</td>
<td>2 ½</td>
<td>2 ½</td>
<td>2 ½</td>
<td>0</td>
<td>7½</td>
</tr>
<tr>
<td>1892-1897</td>
<td>3 ½</td>
<td>3 ½</td>
<td>3 ½</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>1898-1906</td>
<td>3 ½</td>
<td>3 ½</td>
<td>3 ½</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Adapted from King, History vol. I, pp. 119-122, 381-393, 446-447, 484-485; History vol. II, pp. 53-68.

Table 4.1 shows a steady rise in the global circulation quota that the Treasury sanctioned. However, this rise was accompanied by a narrowing down of the fiduciary (or uncovered) portion of the total issue. In other words, the potential for profit accruing from note issuance wore down over the course of time. Until 1888, the fiduciary ratio stood at 66.6%. In other words, as much as two-thirds of the silver bullion or coins that Bank clients paid in over the counter in return for notes could be on-lent without cover. As explained above, this was the period when Treasury under-regulation in China was at its height. Between 1889 - 1897 the fiduciary ratio dropped to one-third. In 1898 it stood at 22%, and continued to diminish steadily thereafter. The overview suggests that profits accruing from note issuance during the Bank’s formative years may have played a significant role in its meteoric rise.

How did the changes in the global issue quota project outside Hong Kong? By 1904, there were definite signs that popular suspicion of notes in China had subsided. In addition, the fact that HSBC’s Shanghai branch was not required to hold metallic reserves against treaty-port circulation also made local managers keen to issue notes there. These factors were, however, tempered by a Head Office primarily concerned with money supply in Hong Kong. In November 1904 Head Office informed Shanghai:

...We quite appreciate the difficulties you experience in having so limited a circulation, but you know the trouble we have each China New Year now in providing cover for the bank’s large banknote
circulation [in Hong Kong] at the time... [After the] China New Year you may increase your limit to 20 lacs.\textsuperscript{224}

In other words, the last tentative China quota set internally in 1899 (1.5 million silver dollars) was to increase by 0.5 million. The circulation grew apace from then on until about 1924. Extant branch records suggest that by 1908 Shanghai notes denominated in Mexican dollars reached a circulation of $1.5 million (about Tls. 1 million), and tael-denominated notes — a circulation of Tls. 115,000.\textsuperscript{225} At the same time, demand in Tianjin and smaller treaty-ports perked up. Overall, circulation of HSBC notes in Mainland China rose to a peak of 4.3 million dollars circa 1923, by which time tael notes had largely been phased out.

On the eve of the Xinhai revolution (1911), the China issue had already supplanted Southeast Asia as the second most important market for notes in the Bank’s strategy. The way in which Head Office had come to view the issue of quasi-foreign notes on the Mainland was tersely stated in a memorandum it relayed to the Shanghai branch in December:

\begin{quote}
Your note issue in Shanghai does not embarrass us beyond our having to put up [Hong Kong] dollar for [Mexican] dollar here. So long as you do not object to incurring dollar liabilities at current price of Mexicans, and there should not be much risk in that, you may go on issuing notes moderately, say up to $30 lacs.\textsuperscript{226}
\end{quote}

The wording inevitably retains some of the Eastern Exchange Bank jargon. Put simply, Head Office gave the branch permission to increase its circulation up to 3 million silver dollars (the value of the Hong Kong dollar and Mexican dollar current in Shanghai being similar). Yet, globally, the Bank had a considerable ‘excess issue’ by 1911. Since its first priority was Hong Kong’s money supply, and since no note reserves had been kept in China proper at that time, the Bank effectively designated its China issue as part of the ‘excess issue’. Thus, the China issue required full metallic backing: one silver dollar in the Hong Kong central reserve for every dollar note disbursed in Shanghai. More importantly,

\textsuperscript{224} S/O from Head Office to Shanghai, dated 17 November 1904, in HSBC GA SHG I-51.

\textsuperscript{225} See Shanghai branch to Peter Smith in Head Office, dated 12 March 1908, in HSBC GA London II - 670; “Notes Outstanding” in HSBC GA SHG I-51.

\textsuperscript{226} See S/O from Head Office to Shanghai Branch, dated 30 December 1911, in HSBC GA SHG I – 51.
the memorandum indicates that — even with 100% reserve set against it — the Shanghai issue was seen as a generally remunerative pursuit from a Head Office perspective.

Net profitability of the China issue may have stemmed from a combination of higher market interest rates in Shanghai, coupled with a cross-rate premium on the Mexican dollar against the Hong Kong dollar. Either way, there was another much more prosaic factor that made the China issue attractive: note issuance was exempt from both Chinese and foreign government tax in the treaty-ports, whereas it incurred a 1% surcharge in Hong Kong.227

Other evidence to support that the China note issue was, on balance, highly profitable is indirect: HSBC archives contain a number of files documenting attempts by conmen to make the Bank disburse silver over the counter on presentation of fake notes, and the Bank’s unstinting investment in improving printing plates and in other preventive measures. The first serious forgery could well have been the one which Charles Addis, then Beijing branch manager, entered into his private diary in 1903: “There has been a forgery of H&S Bank $5 notes, and there is alarm among the Chinese principally. The Bank has been kept open all day…”228

Notably, this short entry also seems to suggest that most note bearers were Chinese rather than European expatriates. It is therefore plausible to assume that the first forgers were Chinese, and so were their victims. However, the quality of the forged notes was not such that the Bank considered forfeiting issuance altogether. At the same time, the Bank seemed to have spared no effort in trying to minimise the risk: in 1901, for example, the Shanghai branch accountant burnt unsigned idle notes to the face value of over 1 million SH$.229

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227 See S/O from Head Office to Shanghai Branch, dated 30 Dec 1911, in HSBC GA SHG 1 – 51; notably, private bank note issuance in Australia incurred a state tax of 2% before 1910. Yet, banks of issue were still thought to have enjoyed a 2.5-3% margin of profit there. See Vort-Ronald (1982), pp. 35, 253.

228 See SOAS, Charles Addis Papers, PP MS 14/21 dated 7 March 1903; on forgery cases after 1911 — see the next chapter.

229 See entry in “Notes Received and Issued”, HSBC GA SHG 1 – 51 dated 24 October 1901; the increasing number of attempted forgeries of foreign bank notes in China is also attested to in a short reference by the Times correspondent (22 September, 1908, p. 6): “…Of trade questions with Japan, the most important for foreigners in China is the infringement of trade-marks, the forgery of foreign bank-notes, and the importation into China of Japanese imitations of Chinese provincial notes.”
4.4 The Shanghai Branch

How important then was note issuance as compared with other business ends in Shanghai? Answers should naturally be drawn from local business records. The Bund was home to a large number of foreign banks of issue before the Communist takeover. Yet, not many of the pre-war balance sheets pertaining to the HSBC branch survived. This section will therefore aim at describing circulation patterns from whatever little quantitative data that is available.

The first generality that emerges from the records is that the Bank had assigned a very important role for local banknote issuance right from its inception, however disappointing initial circulation returns were. As early as 1866, the Bank ordered from London printers notes to the face value of SH Tls. 1 million. This required foresight because quasi-foreign banknotes use in Shanghai had until then faltered — CBIAC for example withdrew its first issue just three years later. The earliest entry for HSBC shows a circulation of Tls. 24,000 in Shanghai in December 1866, but by January 1867 the figure dipped as low as Tls. 10,000. Year-end results show the circulation rebounding back again to Tls. 57,000, and redemption velocity much lower. HSBC could claim a circulation volume of Tls. 140,950 as early as 1873, while CBIAC resumed its issue in the city as late as 1886. In 1875, HSBC Shanghai note circulation was substantially down again at Tls. 76,563.

What does this tell us? In sum, HSBC could not make good on its vision of introducing up to Tls. 1 million into circulation within a short period of time. Initial circulation volumes were erratic, reflecting unwillingness on the part of treaty-port clients to receive notes instead of silver over the counter. This retells much the same pattern implicit in the CBIAC ledgers, although early HSBC issues fared somewhat better. These figures might ring hollow in the ears of non-specialists unless juxtaposed with the overall size of HSBC’s Shanghai branch activities. Table 4.2 and 4.3 below illustrate the role early note issuance played in branch activity, based on two local balance sheets that have been preserved in their entirety.

230 See HSBC GA SHG LEDG 51.
231 Ibid.; Chinese scholars trace the Bank’s first issued notes in Shanghai to 1867 – see, e.g., Pan Liangui (2004), pp. 77-78. However, the record cited above shows that HSBC notes had already been circulating in Shanghai by late 1866.
### Table 4.2
**HSBC Shanghai Branch Balance Sheet – 30 June 1876**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td><strong>Branch Capital</strong></td>
</tr>
<tr>
<td>329.4</td>
<td>1,092</td>
</tr>
<tr>
<td><strong>Metallic Bullion</strong></td>
<td><strong>Note Circulation</strong></td>
</tr>
<tr>
<td>334.7</td>
<td>78.5</td>
</tr>
<tr>
<td><strong>Advances and Loans</strong></td>
<td><strong>Current Accounts</strong></td>
</tr>
<tr>
<td>2,383.6</td>
<td>1,291.7</td>
</tr>
<tr>
<td><strong>Inter Agency Account</strong></td>
<td><strong>Inter Agency Account</strong></td>
</tr>
<tr>
<td>1,958.3</td>
<td>1,060.8</td>
</tr>
<tr>
<td><strong>Bills for Collection</strong></td>
<td><strong>Deposits</strong></td>
</tr>
<tr>
<td>32.3</td>
<td>720.2</td>
</tr>
<tr>
<td><strong>Head Office Account</strong></td>
<td><strong>Head Office Account</strong></td>
</tr>
<tr>
<td>8.8</td>
<td>212.8</td>
</tr>
<tr>
<td><strong>Sundry Accounts</strong></td>
<td><strong>Suspended Accounts</strong></td>
</tr>
<tr>
<td>125.1</td>
<td>695.2</td>
</tr>
<tr>
<td><strong>Profit &amp; Loss</strong></td>
<td><strong>Sundry Accounts</strong></td>
</tr>
<tr>
<td>163.2</td>
<td>40.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Total</strong></th>
<th>5,335</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>5,335</td>
</tr>
</tbody>
</table>

Source: HSBC Group Archives - SHG LEDG 46; the Profit & Loss entry on the asset side refers to interest paid by the branch to depositors and general operation costs while, on the liability side, the same entry refers to commission and interest revenue.

Table 4.2 shows that effective midyear circulation in 1876 reached just under 1.5% of the local balance-sheet total — much less than the global Bank ratio of notes to liabilities, which stood at 4.1% at the same time. Bullion holdings in Shanghai were about 4 times larger than notes outstanding, but no portion thereof is specifically set against note issuance. At 12.4%, the Shanghai cash to liabilities ratio is likewise lower than the global Bank ratio of 13%. Clearly, the demand for fiduciary money in Shanghai during that period trailed far behind the vigorous demand for notes in Hong Kong and the Straits that published Bank aggregates reflect.

More importantly, the distribution of balance-sheet entries indicates that locally-derived business made up a much more significant share of Shanghai branch operations than previously thought. In particular, Baster’s influential work construed the first British banks

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232 The global percentage is calculated from the History, vol. I, Table 6.6, pp. 196-7.
233 Ibid.
operating in East Asia as institutions uniquely concerned with the provision of short-term credit for trading firms by discounting bills and foreign currency exchange. Nonetheless, Table 4.2 demonstrates that the volume of entries strictly associated with the finance of Eurasian and Intra-Asian trade (Inter-Agency flows, Head Office accounts and bill of exchange balances) made up only 37% of local assets or 48% of liabilities. The lion’s share of branch activity was, in turn, devoted to business contracted locally — loans, fixed deposits and current accounts.

It is therefore plausible to assume that from very early on the Mainland branches of the Bank engaged in the provision of retail banking services as part of their strategy. Their note issue should then be understood as a prop for locally contracted business launched against the backdrop of volatile monetary and political conditions outside the treaty-ports, i.e. a means to attract depositors, safeguard credit to indigenous borrowers and reduce shroffing costs.

That attracting Chinese clients was at the heart of incipient branch activity is perhaps best illustrated by a letter Addis sent in 1866 to A. Leith of the Bank’s Tianjin agency, in which he promised to be more cautious in the future when cashing “Drafts to Natives”. The letter further suggests that much of the Beijing branch meagre cash balance (Tls. 1,699) had been kept in anticipation of bill redemption by clients holding HSBC drafts issued in Tianjin, and that this flow made up an important part of the Bank’s business in North China.

Capital flows between Shanghai and other branches of the Bank, as captured in the 1876 balance sheet, are also revealing. Under the left-hand Inter-Agency aggregate, branches in India emerge as the single largest creditor to Shanghai (Tls. 0.85 million or 80% of the entire entry), suggestive of exports consigned from Bombay, with comparatively miniscule backflow of Chinese exports bound for Calcutta. London was by far the largest net debtor of the Branch (Tls. 1.9 million or 97% of the entire entry), while traffic between the branch

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235 Addis to Leith, dated 11 June 1866, in SOAS Addis Papers PP MS 14/64/58.
and Head Office in Hong Kong was surprisingly small (Tls. 8,400 in debit).\textsuperscript{236} Globally, the Shanghai branch was net creditor (Tls. 0.9 million). Contrary to conventional wisdom, then, these figures suggest that — less than a decade after it was opened — the Shanghai branch could already draw on local resources to support a surplus of Chinese exports to the British Empire, i.e. reverse capital flow from the ‘periphery’ to the ‘metropole’. This sweeping conclusion should, however, be qualified by two critical variables: we do not know the exact percentage of branch capital (Tls. 1.09 million) that had been subscribed locally by ethnic Chinese.\textsuperscript{237} Similarly, data is lacking on the proportion of loans funnelled to importers of Indian or British goods.

Another rare balance sheet, dated 9 April 1881, demonstrates the pattern in which the branch expanded in its formative period. The balance sheet total is now at Tls. 6,514,861 — a vigorous growth rate of 22\% over 5 years echoing the overall growth rate of the Bank.\textsuperscript{238} Note circulation is now at Tls. 126,000 up by 47,000 on 1876, but still under 2\% of total liabilities. Fixed Deposits almost doubled from Tls. 720,200 to 1.4 million, making them the fastest growing entry alongside current accounts. These changes are translated, on the asset side, to a rise of Tls. 0.8 million in loans and advances. Globally, the branch is now a much bigger global net creditor in (Tls. 1.6 million), although total intra-bank capital flows as a whole are down by 20\%. The growth pattern is generalised in Table 4.3 below.

\textsuperscript{236} Chinese Imperial Maritime Customs statistics clearly indicate that China sustained a chronic trade deficit with India right until 1948. During the 1870s the deficit averaged Tls 17 million per annum. With Great Britain, China’s trade was at least twice as big until the turn of the 20\textsuperscript{th} century. China was a net exporter to Great Britain until the mid-1880s but its position reversed thereafter. See Hsiao Liang-lin (1974), pp. 148-150.

\textsuperscript{237} Although most of HSBC’s initial public offering had been taken up in Asia, demand for HSBC shares in Shanghai was relatively weak. Shanghai-based stakeholders may have preferred to buy shares in the Bank via Hong Kong due to a better legal infrastructure in the colony. Throughout the 19\textsuperscript{th} century, the Shanghainese bourse was nonetheless dominated by banking sector shares – see Thomas (2001), pp. 38-41, 72.

\textsuperscript{238} Overall, the Bank’s total assets grew by 23\% from $ 39 million in 1876 to $ 48 million in 1881; the Shanghai branch thus accounted for about 20\% of the global aggregate during that period – calculated from the Shanghai balance sheet and the \textit{History}, vol. I, pp. 196, 269.
Table 4.3
Changes in Main Balance-Sheet Entries of the HSBC Shanghai Branch
June 1876 through to April 1881

<table>
<thead>
<tr>
<th>Entry</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note Circulation</td>
<td>+60 %</td>
</tr>
<tr>
<td>Fixed Deposits</td>
<td>+96 %</td>
</tr>
<tr>
<td>Current Accounts</td>
<td>+104 %</td>
</tr>
<tr>
<td>Advances and Loans</td>
<td>+33 %</td>
</tr>
<tr>
<td>Cash and Bullion</td>
<td>+70 %</td>
</tr>
<tr>
<td>Total Inter Agency and H.O. Turnover</td>
<td>-20 %</td>
</tr>
<tr>
<td>Credit Balance with Overseas Branches</td>
<td>+78 %</td>
</tr>
<tr>
<td>Total Liabilities=Total Assets</td>
<td>+22%</td>
</tr>
</tbody>
</table>

Source: Calculated from HSBC Group Archives - SHG LEDG 46

Table 4.3 demonstrates that between 1876-1881 locally-derived business was by far the fastest growing arm of the branch, offsetting a downturn in trade flows with Great Britain in the late 1870s. This lends credence to an insightful observation made by Wang Jingyu in 1983. Wang claimed that the founding of HSBC revolutionised the modus operandi of British banks in East Asia in that, following its lead, foreign banks began to eagerly pursue resources from treaty-port dwellers (ethnic Chinese included) — mainly by attracting fixed deposits. In that sense, HSBC was very different from the OBC, which had dominated the treaty-port economy until the 1870s, because the OBC branch in Shanghai had been exclusively pitched at discounting bills of exchange and lending to Chinese officialdom.

HSBC deposit agglomeration trends in Shanghai dovetail with longer-term figures available for CBIAC, from which it appears that fixed deposits did become a more crucial

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240 Wang Jingyu (1983a), pp. 244-245, 257; a more raw version of the same observation appeared in an earlier article — see Wang Jingyu (1963) pp. 58, 62-63; Yokouchi Masao has broadly described how, similarly, Asian branch fixed deposits became increasingly important as a proportion of liabilities for MBI, the third-largest British Eastern exchange bank, between 1900-1913. See Yokouchi (1990), pp. 86-88, 95-96; Shanghai’s leading vernacular newspaper, the Shen bao, commented favourably on HSBC’s active pursuit of deposits from ethnic Chinese in the city in editorials dated 23 April 1881 and 23 May 1884.
constituent of British banking in Shanghai during the 1870s and 1880s (See Figure 4.2 below).

Figure 4.2

CBIAC Shanghai Branch - Fixed Deposits as Percentage of Total Liabilities, 1859-1911

Source: CBIAC GL Ms 31519/1-25

But while Wang was generally right in his interpretation of foreign banking trends, concrete local circulation figures explicitly disprove assertions made by other Chinese scholars. Based on contemporaneous press reports, Zhang Guohui has argued, for example, that the aggregate face value of British bank note circulation in Shanghai in 1874 was 3.5 million dollars, and that HSBC accounted for more than 51% thereof.\textsuperscript{241} Notably, the

\textsuperscript{241} Zhang Guohui (2002), p. 239. Zhang’s estimate was seemingly based on perusal of an article in the Shanghai Evening Courier, dated 17 March 1874. Curiously, Wang Jingyu (1983b, p. 292) had used this source much earlier but was not duly cited in Zhang’s article. Two years later, Pan Laingui (2004, p. 79), did address himself to Wang’s earlier article but ignored Zhang’s. In yet another case of overstatement, Cheng Linsun cited Tang Chuansi and Huang Hanmin, who had estimated foreign banknote circulation in China proper circa 1911 at 35 million dollars, although HSBC’s global circulation cap at the time reached only 15 million dollars, most of which was allocated for Hong Kong. See Cheng Linsun (2003), p. 162; Tang and Huang (1980), pp. 45-50.
HSBC Shanghai balance sheet of 1876 put local circulation at Tls. 78,563 (or 109,878 dollars), a substantially lower figure than the $1.75 million imputed to Zhang’s source.

Much of the literature on quasi-foreign banknotes in pre-war China has been similarly premised on amorphous circulation estimates or, in the second instance, on emotive descriptions of how foreign banks flouted Chinese monetary sovereignty. But these merely serve to deflect scholars’ attention, both in China and in the West, from the fact that note issuance mainly served as the lubricant of an infinitely more significant turnaround, which saw foreign banks employing treaty-port deposits to finance international and intra-Asian trade, as well as loans contracted locally.

How deposits were employed locally is a question of particular interest to economic historians because it has a direct bearing on our understanding of access to capital in pre-war Shanghai, and therefore on its unique path to industrialisation. While there can be little doubt that foreign banks mobilised vast amount of silver capital from Chinese government agencies like the Imperial Maritime Customs, as well as from individual Chinese depositors, opinions vary as to how and to whom this capital was allocated.

Any locally-mobilised funds that foreign banks might have ploughed back into the indigenous sector of Shanghai’s economy would have had to be mediated through the city’s famous factor agents — the compradors. In a well-known monograph, Hao Yen-p’ing has concluded that the compradors were indispensable for China’s seminal industrialisation both as intermediaries between foreign banks and the domestic sector, and as entrepreneurs in their own right. But the data presented by Hao on the import of comprador investment

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242 Much of China’s customs revenue after 1860 was channelled through foreign rather than Chinese bank deposits to pay off international loans and war indemnities — see, e.g., Hamashita (1989), pp. 68-74; between 1904-1909 at least Tls. 55 million in war indemnities had been remitted through HSBC — see data presented in Huang Jianhui (1994), p. 84; for circumstantial references to the flow of Chinese deposits into foreign bank coffers — see, e.g., Gao Yang (1981), pp. 221-222 and Baster [1977], pp. 160, 180; Ding Richu (1994 ), vol II, p. 66 ; a more illuminating, near-contemporary indication of the importance of local deposits is provided by D.K. Lieu: “Deposits of Chinese and foreign customers, especially savings and long term deposits, are invested by [the foreign banks] in [China] or other countries…although we are able to obtain their condensed balance sheets for all branches, it is impossible with a few exceptions to secure data concerning their China branches alone. As to the way they invest the deposits of their customers, detailed particulars for our purpose are also unavailable.” See Lieu (1929), p. 86.

in Imperial and privately-owned modern ventures in Shanghai conflict with other analyses, which strongly suggest that Chinese privately-owned industrial firms were chronically undercapitalised right until 1930s, and all but shunned by British bank decision makers throughout the pre-war era.\textsuperscript{244}

Geoffrey Jones, who has devoted many years of research to the history of British banks in Asia as a whole, offered an incisive interpretation of their lending practices:

\begin{quote}
Within the context that the banks regarded their legitimate business to be trade finance and exchange operations, decisions on lending were based on risk rather than ethnicity. However, the risk assessment most definitely did take into account ethnicity, to the detriment of Asians for the most part.\textsuperscript{245}
\end{quote}

Hao and Jones have ably drawn two different sketches of the Sino-foreign encounter. Yet more robust data may be needed before Shanghai’s pre-war economy becomes fully understood. Case study analyses may fill some the gaps in the bigger picture, and the one presented here was conceived precisely to that end.

Was HSBC’s note issue harmful in any way to the Chinese sector of the treaty-ports during the late-Imperial era? In the absence of coercion on note bearers or of reliable Chinese alternatives, the question may seem almost unwarranted. As shown above, the circulation volumes of quasi-foreign notes were much lower than previously thought, and their contribution to China’s reformist discourse was largely ignored by Chinese critics. Having said that, it is important to remember that the note issue helped attract a large number of Chinese depositors, who unconditionally entrusted their fortunes to a Bank that was otherwise alienated from the domestic economy. In that sense, it may well be argued that the Bank’s note issue in the treaty-ports helped entrench a skewed capital allocation.

\textsuperscript{244} See, e.g., Huang and Lu (2002), pp. 137-140; Liu Ta-Chun (1936), pp. 91-98.

This chapter was primarily aimed at explaining the evolution of HSBC’s note issue in China until 1911, based on unpublished in-house archival data. It sought, en passant, to examine claims made by Chinese scholars that the note issue was part and parcel of an imperialist grand design that brought China to her knees.

When confined to China’s late-Imperial period, analysis of Treasury policy and local branch balance sheets indicates that British banknote issuance was by and large under-regulated. In East Asia as a whole, note issuance was highly remunerative, contributing to HSBC’s ascendency during the 1880s. Initial circulation volumes in China were, however, negligible compared to Hong Kong and the Straits Settlements, most probably because of deep-seated suspicion of fiduciary money.

As note issuance became a more important constituent of foreign banking in the region during the early 20th century, the British Treasury strove to narrow down its remunerative elements and risk potential. In spite of the fact that China-specific stipulations and special reserves continued to be conspicuously absent from the Treasury’s agenda, HSBC circulation volumes during that period suggest that the Bank succeeded in instilling confidence in its note bearers.

Note issuance was used indirectly to facilitate the ponderous transition of British overseas banks in China from institutions solely catering for foreign trading firms to institutions that efficiently tap domestic resources. The contours of this transition have been demarcated in this chapter, but in order to determine its long-term consequences, future research will have to better explain how and to whom foreign banks allocated capital in Shanghai.

In hindsight, the spread of quasi-foreign money in the treaty-ports during the 1900s was a significant turning point neither because of its absolute volume nor because of its implications on Chinese sovereignty. Rather, quasi-foreign note issuance was historically significant because it was one of the first features of modern banking that engaged reform-minded officials, as they deliberated on what was wrong with China’s finances.

246 This point of view is finally becoming recognised by younger scholars in the People’s Republic – see for example Zhang Ning (2002), pp. 307-312.
As explained above, despite paying obeisance to this reformist rhetoric, the late-Qing’s grip on power was too precarious than to allow the Throne to effectively combat the spread of quasi-foreign notes in China proper. Whether Republican Chinese governments proved better adept at regulating foreign banks after the Qing’s downfall (1911) will be the focus of our next chapter.
Chapter 5
The Hongkong Bank and Its China Note Issue
In the Republican Era, 1912-1937

Foreign banks constitute another kind of economic oppression. They print banknotes in order to bag our stock of hard currency and goods in return for worthless paper. They also fleece us with their exchange commissions. But those among us, the Chinese, who have money prefer to deposit it in foreign banks of all places. These deposits total hundreds of millions of dollars. Even when they deign to on-lend this money to our modest businessmen, foreign banks charge a hefty interest rate. Each year they cream a hundred million dollars in profits off us.

A GMD Primary School Textbook, 1928

In British India, the Exchange banks began to be criticised for not lending sufficiently to Indians, and for not employing Indians at a senior level. British banks were attacked and boycotted alongside British political institutions, with these sentiments peaking in the 1930s...In China there was less of an explicit attack on British banks, but their roles were changed as a modern and unified nation state emerged.

Geoffrey Jones [italics added]

5.1 Introduction

This chapter aims to explain how HSBC banknote circulation volumes unfolded in the immediate aftermath of the Xinhai Revolution (1911) until the outbreak of the Pacific War (1937). In doing so, it will challenge the notion of little resistance that British banks are thought to have faced in China through this period, as demonstrated by Jones’ passage above. Drawing on in-house data, the chapter will argue that the chaotic circumstances and enfeeblement of central authority that typified much of this period in China had a direct

1 Sanminzhuqi qianzike (1928), vol. I, Chapter 34.
bearing on the demand for the Bank’s notes in the treaty-ports. Conversely, it will show how spells of grass-root anti-foreign agitation, mounting competition by Chinese-owned modern banks, and GMD government resolve eclipsed— as from the mid-1920s— the profitability of British overseas banking, and contained by implication the spread of quasi-foreign banknotes. Much like the CBIAC ‘storyline’ delineated in Chapter 3, the data presented below are meant to reinforce the underlying argument that this thesis advances: banknote issuance was one of the most definitive and remunerative, yet under-regulated, constituents of British overseas banking operations in pre-war China.

The chapter is divided into six sections that roughly follow the chronology of the Republican era. Section 5.2 below will demonstrate how internecine warlordism and the erosion of central authority during the early Republican or Beiyang period (1912-1925) unleashed bouts of paper money overprinting in the hinterland, thereby increasing the demand for secure means of payment within the treaty-ports; Section 5.3 will reveal how the May Thirtieth or Wusa Incident (1925) signalled a watershed, after which HSBC’s unchallenged position in Shanghai’s financial markets rapidly eroded; Section 5.4 will argue that GMD state-building and reform efforts during the Nanjing decade (1927-1937) forced HSBC and other foreign banks to downsize and, ultimately, renounce their note issue privileges. The fifth section (5.5) will revisit the role played by Sir Frederick Leith-Ross, the special British envoy to East Asia, in facilitating the fabi reform (November 1935), which saw China parting with the silver standard and introducing uniform fiat currency for the first time since the 14\textsuperscript{th} century. Finally, a brief attempt will be made to assess the historic significance of HSBC note circulation figures in Republican Shanghai (5.6).

This chain of events outlined above is by no means self-explanatory. It should be noted that, as first indicated in Chapter 3.4, most Western accounts of foreign banking in pre-war China either gloss over the cataclysmic enormity of the May Thirtieth Movement (1925-6), or depict foreign bank attitudes toward Chinese monetary reform in the mid-1930s as cooperative.\footnote{See, e.g., the \textit{History}, vol. III, p. 406-416; King (1983), pp. 283-284; Collis (1965), McKenzie (1954) and Tamagna (1942) barely mention the May Thirtieth Movement; Roberta Dayer’s account of the implications of the May Thirtieth Movement is unduly laconic— see Dayer (1988), pp. 259-263; curiously, the volumes on the Republican era in \textit{the Cambridge History of China} (vols. 12,13) have little to say on \textit{Wusa}, let alone on its economic implications. See, e.g., Feuerwerker (1983).} It is therefore critical for China scholars to consider whether, ultimately, the
overall picture of Sino-British relations during the Republican period might not require some readjustment.

5.2 The Beiyang Period (1912-1926)

Historians of Republican China have grappled with the complexities of warlordism a good deal. Theorising this phenomenon, or couching it in social-science models, is an inordinately difficult task because the term itself—‘warlord’ (junfa 軍閥)—not only carries with it an onerous pre-modern baggage, but is also shorthand for a motley crew of militarists, myriad satrapies and, in some case, barely traceable alliances.4

Initial scholarly thrust in the West was therefore centred on an analysis of individual warlords — their characteristic shade of governance, their religious beliefs, doctrines, client-patronage systems etc.5 Most scholars have since concluded, in one way or another, that the disintegration of civilian authority in China had inevitably sprung from the complete collapse of the Confucian system of values and dynastic world-order in 1911.

But, recently, more and more new studies take a longer-term view, tracing the paralysis of central authority further back in time to the emaciation of state revenue in the face of rapid population growth, which had characterised the Ming-Qing eras.6 Although early Republican budget figures may not be entirely reliable, few scholars now question the fact that by honouring foreign debts incurred by the ancien régime, and borrowing yet more, the new Republican government compromised its executive powers and popular support base.7

For most ordinary Chinese the breakdown of central authority in the 1910s often spelled unspeakable depredation. However, for the foreign banks and for the indigenous mercantile

4 For a useful overview of various definitions of the term junfa from Song times on – see Beiyang junfa shi (2002), vol. I, pp. 7-18.
5 See, e.g., Sheridan (1966); Pye (1971); Kapp (1973); Gillin (1967).
7 The repayment of debt to the European Powers and Japan took up at least one third of the central government budget between 1911-1916, whereas figures before 1890 were at around 2%. The three largest sources of government revenue throughout the Republican period were excise on opium, alcohol and gambling; salt gabelle duties, and the Maritime Customs receipts — the last two having been, of course, under foreign tutelage. See Van der Ven (1996); Warlord regimes had an inherited public debt problem resulting from mass acquisitions of Western weaponry, as well as from the Shimonoseki and Boxer indemnity incurred by the Qing. See, e.g., Lin, Alfred (2002) 179, 189-203; Fitzgerald (1990), pp. 752-759.
elite operating within the safety of the treaty-ports, this was a veritable golden age. Chinese bankers, for example, took advantage of the new circumstances to extricate themselves from the claws of an ever demanding, yet incapacitated, Treasury in Beijing to establish independent financial institutions that, in time, would outpace, co-opt and often challenge their foreign counterparts.\(^8\) Foreign banks, in turn, could thrive on Chinese government loans, which the latter could secure only by pledging an increasingly large proportion of future customs revenue.

So long as Beijing’s grip on the periphery was contested by secessionist elements, the prospect of a Chinese government opening up a second front against foreign privileges like extraterritoriality or banknote issuance were minimal. Conversely, no individual warlord had enough moral authority or firepower to mount an attack on the treaty-port paradigm – most solicited foreign military assistance in one way or another themselves.

But, ironically, it was the reckless inflationary policies (lanfa wujie 濫發無節) of the warlord era that familiarised banknotes to dwellers of all but the most remote counties in the hinterland.\(^9\) Because satrapies tampered with the once more reliable copper coinage by driving their own mints to use inferior raw materials, they spread general distrust in money, which obfuscated the traditional boundary between the fiduciary and metallic; the pervasive political uncertainty and inflationary fiscal policies of the times generally compounded a flight from means of payment identified with the central government, as well as with the warlords, toward money that was endorsed in the treaty-ports by either Chinese private banks or foreign banks.

The surging popularity of quasi-foreign notes in China coincided with the phase-out of HSBC’s Southeast Asian issue in the 1910s. The Bank immediately sensed that, in addition to vigorous monetisation in Hong Kong, a secondary market was opening up for its notes on the Chinese Mainland. Thus, it began to lobby the British Treasury to modify its global allocation quotas in a way that would allow disbursement of more notes in China. As indicated in Chapter 3.2, during the early 1910s, there was a flurry of correspondence between HSBC, CBIAC and the Under Secretary of State at the Colonial Office in an

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attempt to seal a deal with Treasury, whereby the large issues of the two banks in Singapore and Penang would be supplanted by bigger quotas for Greater China.\textsuperscript{10}

The Banks’ argumentation had to be adapted to suit the tastes of Treasury regulators, whose main concern, during that period, was money supply in colonial Hong Kong, but who took much less interest in the growing demand for notes in the Chinese treaty-ports. Therefore, in their representations, CBIAC and HSBC focused solely on Hong Kong as the \textit{raison d’être} of their reallocation bid.

This strategy was not lost on a reincarnation of the Chartered Mercantile Bank. CMBILC had lost its note issue prerogatives when it was reconstituted as MBI in 1893, and was now trying to recover its position in Greater China by underscoring conditions in Hong Kong. MBI complained in letters to the Treasury that the HSBC and CBIAC duopoly on note issuance in the Colony created a premium on HK$ notes over silver coinage of about 3.5%. This, it claimed, was indicative of money supply shortfalls, which made the entry of another bank of issue desirable.\textsuperscript{11} The Treasury was persuaded by the argument, but it chose to impose on MBI much stricter reserve requirements than on the bigger two banks, reflecting concerns about the Chartered Mercantile Bank’s past performance. Although its profit potential was significantly cut, MBI renewed its note issuance in Hong Kong in 1911 and, as if by default, in Shanghai circa 1920.\textsuperscript{12}

Internally, HSBC executives had been ambivalent about the long-term prospects of the China issue, because successive Chinese governments were toying with the idea of unifying all forms of currency management under their wings as a form of indirect taxation. Though

\textsuperscript{10} See, for example, a letter to the Treasury, dated 5 December 1913, by H.L. Read, an aide to the Undersecretary of State at the Colonial Office, indicating that the latter had no objection to the proposed reallocation of HSBC note issue volumes, and preferred the first of two reallocation alternatives offered by CBIAC. The letter also stated that the correspondence regarding the new allocation quotas would be communicated to the Governors of the Straits Settlements and Hong Kong, as well as to the Crown Agents for the Colonies in London. In PRO T 1/11590.

\textsuperscript{11} See correspondence dated 13 June 1914 in HSBC GA MB HIST 1215.

\textsuperscript{12} In reply to MBI’s request that its note issuance requirements be relaxed to allow a circulation volume parallel with the bank’s paid-up capital, and with only 1/3 of the amount in metallic reserve – the Secretary of State for the Colonies, Viscount Harcourt, reiterated the Treasury’s position opposing the equalisation of MBI requirements with those of HSBC and CBIAC because of the former bank’s recent insolvency; see also Green and Kinsey (1999), pp. 211-212.
the central government was far too hamstrung at that stage to implement such reforms on the ground, HSBC executives were mindful of the implications such a move might have for the Bank’s *modus operandi* on the Mainland. As early as 1917, Sir Newton Stabb, the Hong Kong-based Chief Manager, wrote to A.G. Stephen, then manager of the Shanghai branch:

> With regard to the question of abolishing sycee and making the currency of China a universal dollar, my opinion is that whether the change would suit us or not, we must support it. A universal dollar for China has been the cry for years past and I think such a currency (always provided the mints are under control and can be depended upon to maintain the standard of the coin) would be of such benefit to trade generally that you would gain much more by the change [than] you would lose over the loss of interport exchange and tael-dollar business.\(^\text{13}\)

At the same time, the Bank’s staff in China proper thought that the prevalent monetary conditions there afforded unique business opportunities. In a letter dated October 1919, A.G. Stephen wrote to the former Chief Manager, Charles Addis who — at the end of his tenure at Head Office in Hong Kong — returned home to preside over the Bank’s London office:

> Very possibly the fact that outside the Shanghai Banks’ Notes and a small local issue of Notes by Foreign Banks at the treaty-ports, there is not now a single reliable Note available in China (of course leaving out of account Hongkong Notes), has created an unusual demand for Silver dollars all over the country...\(^\text{14}\)

The letter also indicated that 40 million ounces of dollar coinage that the then dysfunctional Republican government had minted from imported silver in Nanjing, Tianjin and Wuchang was already gobbled up by the Chinese interior. The comparative reliability and ubiquity of those central government dollar coins — commonly known as *Yuan da tou* 袁大頭 — rendered the use of traditional silver bars (‘sycee shoes’) outmoded because the sycee could

\(^{13}\) N.J. Stabb to A.G. Stephen, dated 19 October, 1917 in HSBC GA Currency F2.3.

\(^{14}\) Stephen to Addis dated 6 October 1919 in HSBC GA SHG1 – 764.1, ff. 81-83.
not be used in business transactions without a costly nod of approval from third-party assayers.\textsuperscript{15}

Since it did not mint coins itself, the Bank was prepared to welcome universal metallic Chinese currency, provided that it was overseen by foreign advisers rather than launched independently. Chinese or British Government oversight of paper money circulation in the treaty-ports was a thornier issue that bank correspondence usually skirted — here the Bank was a player, not just an observer. On the whole, the Bank's guarded policy in the Republican period reflected decades of anticipation of monetary reforms that never materialised in the late-Qing.\textsuperscript{16}

Though equally circumspect, the British diplomatic corps in China was less ambivalent than the Bank toward an imminent Chinese monetary reform, arguably because it represented a wider group interests. British trading firms were one such group. They bore the brunt of the foreign banks' interport exchange commission, and were clamouring for uniform currency. In late 1919, J.N. Jordan, the British Minister in Beijing, urged the Chinese foreign ministry (\textit{waijiao bu 外交部}) to heed the pleas of British merchants for the abolition of sycee and the standardisation of dollar and subsidiary copper coinage, after previous pledges by the Imperial regime had come to naught. More importantly, Jordan warned of the grave consequences of currency debasement by provincial mints, that was tarnishing the credibility of the central government.\textsuperscript{17}

\textsuperscript{15} \textit{Yuan da tou} — literally translated 'Yuan's Big Head' — in reference to China's first President of the Republic, Yuan Shikai (1859-1916), whose portrait was inscribed on the coin.

\textsuperscript{16} See, for example, E.G. Hillier in Beijing to A.G. Stephen in Shanghai, dated 14 November 1919, in which Hillier praised the China Maritime Customs Inspector, Arthur Aglen for prodding the Chinese government to adopt currency reform, while sounding a guarded note on the government's previous reform record: "...Aglen is wrong in saying that there is no standard dollar. A perfectly good standard was fixed by the currency regulations issued a few years ago, and these actually provided for the free coinage of silver, but the trouble is that they have never been carried out." In HSBC GA London II - Box 2 Item 33.

\textsuperscript{17} See copy of a letter from J.N. Jordan to the Chinese Foreign Ministry, dated 20 December 1919, which recapitulated the British Chambers of Commerce plea "...[t]hat the Chinese government be strongly urged to take steps to discontinue the use of Sycee and establish a uniform currency of Dollars and subsidiary silver and copper coinage throughout the country; [d]uring the [Chambers'] discussion of this resolution in Shanghai, a reference was made to the several memorials on Currency Reform which were submitted to the Throne in 1911. But it was shown that no real reform has occurred; that the present issues of banknotes are largely discredited; that enormous quantities of subsidiary silver and copper coins have been put on the market by various provincial mints, and have rapidly depreciated, thus destroying the confidence of the
While they benefited from interport exchange commission, the fragmented monetary situation in China required foreign banks to closely monitor interport market trends. One such important bellwether in Shanghai was the *yangli* – i.e. the exchange rate between the silver dollar as a medium of payment and *kungkued* or shroffed sycee. A seasonal influx of commodities or sycee from the hinterland to Shanghai made the dollar comparatively dearer and *vice versa*. These two means of payment were far from perfect substitutes, not least because dollar coins – especially Mexican – were considered more reliable when paying for raw silk, soybeans or tea. Movement in the balance of dollar-sycee stock immediately affected private indebtedness in Shanghai because, until 1933, current accounts were run on the basis of an abstract unit of account (Shanghai Tael), derived from sycee 'shoes', but were mostly payable in hard Mexican dollar coins.

Chinese observers often noted that, as the largest single depository of silver in the city, HSBC was in a position to manipulate the *yangli* and foreign currency exchange rate to maximise commission revenue. This was thought to be an unscrupulous stratagem to exploit China’s monetary fragmentation. The allegation against the Bank has not been persuasively corroborated or refuted yet. Neither is there direct evidence in the Bank’s archives to support either argument. If *yangli* exchange profits in Shanghai had been substantial, it stands to reason that the Bank would have been more opposed to single currency than extant in-house records suggest.

There is, on the other hand, sufficient evidence to bear out the Bank’s overriding primacy in Shanghai’s financial markets, at least circa 1900s. Figure 5.1 illustrates the HSBC’s share of the total amount of sycee in the city, based on the findings of a Head Office Inspector who had been despatched to the branch in October 1915:

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Figure 5.1
HSBC and Total Sycee Holdings in Shanghai, Year-end 1905-1915

Unit: Tls. Million

However fast banknote circulation volumes were growing in the late 1910s, the Bank’s large silver holdings were primarily used to support other liabilities rather than serve strictly as note reserves. In mid-1915, notes outstanding in Shanghai totalled just under $3.5 million, while the stock of sycee was estimated at Tls. 9.85 million or about $13.7 million. In other words, sycee holdings were 3.9 times bigger than the face value of all notes outstanding. Those figures compare somewhat favourably with mid-1916 data for the CBIAC branch in Shanghai, where sycee and bullion reserves were only twice as large as note circulation.\(^{19}\) In all, however, respective branch ratios were not all that far apart: the Shanghai total reserve to note ratio was 3.9 for CBIAC, and only slightly higher at 4.3 for HSBC.

\(^{19}\) The CBIAC Shanghai branch balance sheet for June 1916 shows note circulation at $1.5 million, bullion holdings at $3 million, and liquid cash reserves at $2.9 million – see CBIAC GL Ms31519/36-7.
Fortunately, the same Inspector’s Report of 1915 provides details on the makeup of the liquid cash reserve. Table 5.1 offers a glimpse at the types of currency circulating in Shanghai at the time that the Bank was prepared to accept.

### Table 5.1
**The HSBC Shanghai Branch Cash Balance Makeup, 22 October 1915**

<table>
<thead>
<tr>
<th>Banknote Specification</th>
<th>Balance Makeup</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC 195</td>
<td>12,000</td>
</tr>
<tr>
<td>CBIAC 2420</td>
<td>1,607,654</td>
</tr>
<tr>
<td>Russo-Asiatic 1950</td>
<td>3,854</td>
</tr>
<tr>
<td>International Banking Corp. 510</td>
<td>60</td>
</tr>
<tr>
<td>Banque Belge pour l’Etranger 490</td>
<td>0.55</td>
</tr>
<tr>
<td>Netherlands Trading Society 565</td>
<td>0.02</td>
</tr>
<tr>
<td>Deutsch-Asiatische Bank 160</td>
<td></td>
</tr>
<tr>
<td>Imperial Bank of China 1,440</td>
<td></td>
</tr>
<tr>
<td>Bank of Communications 2,815</td>
<td></td>
</tr>
<tr>
<td>Bank of China 1,455</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,000</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,623,568.57</strong></td>
</tr>
</tbody>
</table>

Source: HSBC GA London II – Box 8 Item 123 (Inspector’s Report on Shanghai, dated 22 October 1915)

Table 5.1 shows that by 1915, HSBC was prepared to accept three types of Chinese state bank notes despite prevailing uncertainties about the salubrity of the domestic banking sector, whereas in the late-Imperial era the Bank accepted Imperial Bank of China notes only. The novelty may well have been related to the fact that the local branches of the Bank of Communications and the Bank of China were less yielding to Beiyang government pressure than the branches in Beijing, which were beyond the pale of foreign extraterritoriality.²⁰

One other feature of the 1915 cash balance is the liminal share of dollar and subsidiary coins issued by China’s Provincial Mints — merely 0.2% of the total. Clearly, Chinese currency — either in note or coin form — was not highly regarded.

When juxtaposed, other Inspector Reports from 1915 make an important quantitative source on the volatile business climate in early Republican China as they feature fairly synchronic information from several commercial hubs. Notably, several historians have identified a widening gap between economic growth rates and living standards in the hinterland and China’s littoral provinces during the 1910s. The Reports suggest that, at least from a monetary standpoint, bifurcation was to be found not only between centre and periphery, or between various ‘macro-regions’, but also within the treaty-ports themselves.

Table 5.2
Liquid Cash Balances in HSBC China Branches, 1915

<table>
<thead>
<tr>
<th></th>
<th>Quasi-/Foreign</th>
<th>Chinese</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shanghai</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banknotes</td>
<td>5,710</td>
<td>6,290</td>
<td>12,000</td>
</tr>
<tr>
<td>Silver Coins</td>
<td>1,607,714</td>
<td>3,854</td>
<td>1,611,568</td>
</tr>
<tr>
<td>Sycee</td>
<td>N/A</td>
<td>40,465,864</td>
<td>40,465,864</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>42,089,432</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Quasi-/Foreign</th>
<th>Chinese</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Qingdao</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banknotes</td>
<td>7,424</td>
<td>0</td>
<td>7,424</td>
</tr>
<tr>
<td>Silver Coins</td>
<td>131,613</td>
<td>21,450</td>
<td>153,063</td>
</tr>
<tr>
<td>Sycee</td>
<td>N/A</td>
<td>73,400</td>
<td>73,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>233,887</td>
</tr>
</tbody>
</table>

21 For background details on the role of Inspectors in British overseas banking – see Jones (1993), pp. 49-50.
Table 5.2 shows that the ratios of paper notes to silver coinage are completely different in each of the treaty-port branches, suggesting widely different dynamics of monetisation at work. Surprisingly, in Shanghai notes made up only 7.4% of the balance (excluding sycee holding), while in Qingdao and Hankou they made up 5%. In less commercialised Beijing, however, notes made up as much as 21.3% of the balance.

One probable reason why monetisation patterns were so different was the fact that principal banks of issue — be they foreign or domestic — varied spatially. Deutsch-

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23 Not just foreign bank paper note holdings, but the types of silver coinages commonly used varied from province to province, and from one treaty-port to another. An American business handbook (Arnold, 1919) reported for example that while Hubei provincial dollars were the only “legal teder” in Hankou (p. 161), currency conditions in Mukden [Shenyang] were “chaotic” (p. 228). In Shanghai, the “actual” currency in circulation was Mexican silver dollar coins (p. 265). But in Tianjin copper cash was most popular, while Mexican dollar coins were “...now seldom seen” (p. 322). In Amoy [Xiamen] “[the] many currencies in circulation make it difficult to give definite statements on exchange” (p. 363). And in Nanjing there were no less than “…10 [types of] silver dollars, with their respective subsidiary coins, current” (p. 591).
Asiatische Bank [DAB] and Yokohama Specie Bank [YSB], for example, seem to have had a minor standing as note issuers in Shanghai. But 1,200 km further up the coast, in German-administered Qingdao, DAB and Yen-denominated YSB notes made up the entire balance. In inland Harbin, HSBC ledgers were denominated in gold-based Roubles, while in Dalian [Dairen] HSBC ledgers were denominated in Silver and Gold Yen.

In Hankou, DAB notes are completely absent from the note balance totalling $21,409, but so are other British, European and American bank notes, which prefigured in the Shanghai cash balance — with the sole exception of the Russo-Asiatic Bank (2,000$). Conversely, Hubei provincial government notes made up the majority ($10,929) of the branch’s note balance.

The degree of receptivity toward Chinese banks is similarly variegated. In Shanghai quasi-foreign notes constituted only 47% of all notes in the balance, while in Qingdao no Chinese note was accepted over the counter. In Hankou and Beijing, quasi-foreign notes made up 25% and 67% of the total note balance respectively.

This large stock of Hubei Provincial Bank note holding in Hankou contrasts sharply with all other branches, and illustrates the difficulty of applying uniform guidelines from Head Office to a vast and fragmented country. In the Beijing branch, for example, the Inspector remarked that attitudes were circumspect even as regards much more reputable Chinese banks — i.e. the Bank of Communications and Bank of China — than was the case in Hubei:

It will be seen that the notes of two Chinese banks appear in the Cash Balance. The amounts are not large and I am informed that particular care is taken not to allow the holding of such notes to exceed say $20,000... There does

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26 See Inspector’s Report on Hankou, dated 9 April 1915, where the local balance is uniquely divided into Hankou-issued, Shanghai-issued and Beijing-issued notes — suggesting a discount on, or at least a different view of, quasi-foreign notes from other treaty-ports; in contrast to the large amount of Hubei provincial bank notes, no Chinese bank appears in the branch’s inter-bank clearance account - in HSBC GAL II 8.123.
not appear to be any special reserve of cash against the note issue [of the Bank of Communications and the Bank of China].

Through the late 1910s, as debasement and overprinting in warlord-dominated areas grew completely out of control, small strides toward internalising the specifics of Western reserve requirements and the implications of their sheer lack of enforcement became noticeable in the popular press. For foreign banks, however, overprinting was a living proof of the incorrigibility of China’s finances; for China’s need to continue maintaining the presence of foreign advisors, and for the indispensability of foreign financial institutions. Foreign banks decried the lack of central banking, but at the same time were secretive with respect to the larger volumes of notes they had printed to satisfy demand for secure means of payment in the Republican era. In a joint statement they published in early 1920, the foreign banks averred:

In foreign countries the issue of paper money is generally an exclusive prerogative of the central government, and is entrusted to the government banks. Lately, mercantile establishments have multiplied and the note issue has increased daily. Officials have regarded this as a way to accumulate funds, and the merchants as a way to make profit. If a method is not devised to control this, there will soon be no ready money for the official receipts and disbursements, and in the market there will be nothing but worthless paper. Prices will rise, and the people will suffer poverty. The danger is hard to appreciate...[Chinese dollar coins] are now circulating all over the Northern Provinces and are penetrating into Manchuria and Mongolia, displacing the discredited Chinese bank notes.

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27 See Inspector’s Report on Beijing, dated 4 March 1915 in HSBC GA L II 8.123; although Beijing was not a treaty-port par excellence, the figures suggest that the early Beiyang government did not block the Bank’s issue even in China’s capital.

28 See, e.g., Dongfang zazhi, vol. 9 no. 1, 1 July 1912, pp. 9-13; Dongfang zazhi, vol. 15 no. 8, 1918, pp. 189-194.

29 The foreign banks’ joint statement was attached to a report sent by A.G. Stephen (Shanghai) to Charles Addis (London), dated 15 March 1920. In HSBC GA Currency F2.3
A second round of inspection of HSBC’s Mainland branches was conducted in 1922, by the outspoken Thomas S. Baker, whose long and versatile career with the Bank had comprised the roles of Yokohama branch accountant, Singapore and San Francisco branch manager. In the introduction to his internal Report, he gave a sobering appraisal of China’s predicament, which was less diplomatic in tenor than the joint statement published by the foreign banks in 1920:

The form of government at the present time in China is ostensibly a Republic, but actually the principal Provinces are more or less in the hands of Military Dictators who are ravaging and ruining the country by plundering revenues of Railways, imposing levies on towns and villages and in some cases seizing the revenues of the Salt Gabelle, whilst as a rash expedient of raising funds for military purposes a fiduciary note issue of $30 million in copper value is seriously contemplated by the Tuchuns [Dujuns] of Chili [Zhili].

Baker’s impressions are valuable because they provide a financial expert perspective on the degree of destruction that warlordism wreaked upon China’s economy. Historians have recently called into question the received wisdom of the economic impact of warlordism, arguing that the number of combatants involved in skirmishes between the different satrapies was on a much smaller scale than previously thought. Nonetheless, it seems that students of the period would do well to go beyond the immediate consequences of warfare to examine what transpired within the satrapies themselves — pernicious inflationary policies, disruption of trade and flagrant violations of property rights may have been much more ruinous than shrapnel, and have scarcely been looked into. Baker, for one, wrote that he had “little doubt” that economic conditions in China deteriorated since Republicanism had been introduced, with sycee gradually disappearing from the interior in favour of locally-minted dollars of uneven quality, and with worthless paper money inundating Hunan, Hubei and Guangdong.

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31 The General Inspector’s Report on China was submitted by Baker to the Hong Kong Head Office on 29 September 1922. In GA SHG 327.
A Maritime Customs report from the early Republican period resonates with much the same judgement, as it exemplified the consequences of warlordism in the south-eastern reaches of Sichuan province:

Heavy military taxation...and an abnormal high price for rice — nearly 100% higher than in ordinary times — counteracted in part the favourable conditions under which the port was trading. The high price of rice was due, it is said, partly to lack of proper attention being paid to the preceding year’s crop, owing to the conscription of many agricultural laborers on the part of the military, and partly because many of the farmers are substituting poppy cultivation, as being more profitable, for rice. Whatever advantages the Chungking [Chongqing] trade may have gained during the first quarter of the year were lost during the following quarters, on account of...the increased military taxation, already very high, and, finally, the outbreak of hostilities between rival [warlord] factions.34

Clearly, it was the troubled interior that was pulling China away from the traditional tael system — a world apart from the relative security of the treaty-ports, where sycee holdings amassed; possessing sufficient quantities of metallic money, British banks in the treaty-ports were nevertheless not inclined to meet the voracious demand for reliable money that followed the debasement of traditional coinage. Disbursing more notes in the treaty-ports than they already had would have contravened their global issue quotas. The disparities between the foreign and domestic banks of issue were now more pronounced compared with the Late-Qing era. Chinese paper money increased by leaps and bounds, becoming a more dominant feature of the money supply.35

34 The Foreign Trade of China (1926), pp. 8-9.
35 See Inspector’s General Report on China, submitted by Baker to the Chief Manager on 29 September 1922 in HSBC GA SHG 327 – folios 16-17; incidentally, the General Report also estimated that total deposits in Chinese modern banks amounted to $ 469 million, while the face value of their notes outstanding reached $ 96.3 million. Assuming that Baker’s data was credible, we may infer a notes to deposit ratio of 20% for Chinese banks, while the Shanghai branch balance sheet for CBIAC put the same ratio in June 1922 at only 9% — see CBIAC GL Ms 31519/67.
Thomas Baker's visit to the relatively new Chefoo [Yantai] branch in September 1922 coincided with preparations for the first HSBC issue in this outport. It thus provides an intimate account of the underlying rationale behind the China issue. The Inspector noted that common currencies in Yantai had hitherto included Tael-denominated bars, silver dollars, and HSBC notes transported from Shanghai. Baker warned of a precedent whereby small outport branches like Yantai disbursed inordinate amounts of HSBC Shanghai notes, since the silver reserve held against them was not held locally, and sudden inability to redeem them could harm the Bank's reputation. Instead, Baker recommended that HSBC China notes be strictly prescribed per locality with on-site backing. 36

Nonetheless, Baker was not entirely sure if a local issue in Yantai was feasible, owing to its ambiguous legal status: "...I understand it is intended that this Agency [Yantai] shall have a small note issue of its own, but I am not sure that the Taoyin [Daoyin] of Shantung or the Peking Government would allow our bank to issue notes of its own in [Yantai] where no Foreign Settlement exists." 37

Short of providing data to compare with other local cash balances in 1915, Baker's tour of 1922 did contain background information that might help us better understand the dynamics of quasi-foreign banknotes.

On Shanghai, Baker commented that quasi-foreign notes "...circulate at par with one another", but that YSB and the Bank of Taiwan had to curtail their issue due to their "unpopularity" — undoubtedly an allusion to the swingeing anti-Japanese boycott during the May Fourth or Wusi Movement (1919). 38 In Qingdao, on the other hand, Baker

36 Inspector's Report on Yantai, dated 2 September 1922. In HSBC GA SHG 329; Baker observed that in this small outport, HSBC notes were mostly in demand by US Navy personnel, by the local branch of the Russo-Asiatic Bank and by some 'native banks'; contrary to Baker's recommendation in this Report — on 19 May 1926 Head Office instructed the Manager of the Shanghai branch, G.H Stitt, to phase out local Yantai notes and disburse instead Shanghai-issued notes to US Navy personnel. In HSBC GA GHO 13.3.

37 Inspector's Report on Yantai dated 2 September 1922 in HSBC GA SHG 329; Baker was concerned about the legal complexity that a local issue might pose because he was informed shortly before his arrival that an attempt by the US-owned International Banking Corporation to issue notes in Yantai had not materialised due to opposition from the local Chinese authorities; the Inspector was equally concerned about the stability of local Chinese banks, and therefore recommended strict adherence to metallic money where possible. He estimated Chinese bank circulation in Yantai at $425,000 against a "trifling" metallic reserve of $97,000.

38 See Inspector's Report on Shanghai (1922) in HSBC GA SHG 343.1 folio 6.
observed that YSB Silver Yen notes had become "...[t]he actual currency of this port", thus supplanting DAB notes which had been predominant until the outbreak of World War I. 39

Regrettably, Baker did not seem to have produced reports on South China branches and agencies, probably because the latter had fallen under Head Office purview. Monetary fragmentation there was, nonetheless, amply referred to in other correspondence between the Banks' nodes in Hong Kong, London and politically-sensitive Beijing. This correspondence also demonstrates the extent to which HSBC played a role in South China politics. 40

On September 1922, A.H. Barlow, then Deputy Chief Manager at Head Office, wrote to Sir Newton Stabb, the London office manager and a former Chief Manager himself, that Guangdong was "flooded" with paper money issued by the once GMD-backed provincial bank and, consequently, "...trade is very much hampered". In the same breath, Barlow was pleased to communicate that the warlord Chen King Ming [Chen Jiongming 陳炯明] had just deposed the Nationalists caretaker government in the province, and would put currency matters "on better footing". 41 Head Office was to extend a helping hand to Chen by temporarily accepting in its Guangzhou-Shameen branch a deposit of $10 million from the provincial bank paid in provincial notes on 12 months maturity and generous 8% interest made payable in metallic silver, with the hope of tiding Chen's regime over.

Public pronouncements aside, the Bank continued to display ambivalence about China's political and economic fragmentation. Yet, this ambivalence can only come to light if banking praxis is disentangled from executive views as expressed in quotidian correspondence between head Office and the Mainland branches. The inauguration of the Yantai issue in 1922 is a case in point, because it came about at a time when the Bank's management projected indifference to its China issue.

40 During the early 1920s, HSBC had been increasingly involved in financing groups opposing the GMD in South China, culminating in the 1924 merchant militia uprising led by the Bank's one-time comprador, Chen Lianbo (Chan Lin-pak). See Bergère (1986), pp. 234-236.
41 Barlow to Stabb, dated 15 September 1922, in HSBC GA SHG II 576.
A letter from A.H. Barlow to E.G. Hillier, HSBC’s representative in Beijing,\(^{42}\) is probably one of the best documentations of the Bank’s ambivalence. Barlow indicated therein that vigorous demand for notes in Hong Kong meant that the Bank was forced to retire its small circulation in Amoy [Xiamen] and Foochow [Fuzhou] in order to free up reserves, and that “...we have restricted the circulation in Shanghai and the Northern Ports for the same reason”.\(^{43}\)

Barlow’s letter — it must be added — was sent in January 1922. A few months later a substantial amount of notes would be disbursed in Yantai, and circulation figures in China proper would steadily grow until 1925, in contrast to the Bank’s policy, as described by Barlow in 1922. Moreover, in another section of the letter, Barlow expressed adamant opposition to any concession to nationalists, which might result in the Chinese banning HSBC notes and disrupting “...the convenience of the public, Chinese and Foreign [alike].”

Barlow’s inconsistent stand on the Mainland issue may have partly derived from fledgling Chinese antagonism — both at the grass-root and official levels — which he himself observed:

There have never been any objections raised by the Chinese to our note issue, until the Shanghai Chinese Banks raised the point a few months ago; on the contrary, the difficulty has always been to keep it within bounds, and the Chinese would be the first to object to any measure tending towards depriving them of this safe and convenient form of currency.

If the Chinese had a really powerful State Bank of undoubted solvency, to which we could go for currency, the note issue of foreign banks would automatically disappear in China, except in Hongkong. That is a

\(^{42}\) On Hillier — see King (2004).

\(^{43}\) Barlow to Hillier, dated 6 January 1922, in HSBC GA SHG II 576; Barlow indicated that circulation in Xiamen amounted then to only $2,187, while in Fuzhou it totalled a few hundred dollars. The withdrawal of these local issues, therefore, could not have significantly alleviated demand pressures and an attendant reserve crunch on the Bank’s Hong Kong issue, which had reached HK$ 40 million by then.
long way off yet, however, so I hope matters will be left as they are for the present. 44

But whether the Bank’s management was genuinely ready to welcome a ‘powerful’ Chinese central bank in the 1920s is questionable – maintaining the status quo was the overriding goal. The Bank’s top echelons identified the rise of Chinese modern banking with hothead anti-foreignism too easily. Seven months later, Barlow addressed the China issue again in a letter to Hillier. He complained bitterly of the manager of the Bank of China in Shanghai — in a probable allusion to Song Hanzhang 宋漢章, one of the least politically minded figures in Chinese financial circles — who was allegedly fomenting anti-foreign sentiments: “[H]e is now mentally deranged at times I am sorry to say”. 45

Barlow’s attitude toward the rising tide of Chinese nationalism should also be understood in the context of the longstanding extra-territorial privileges in Shanghai, which by the early 1920s had begotten a complacent British expatriate microcosm amenable to almost no one but itself. The apogee of expatriate complacency came to be symbolised, in a sense, by the inauguration of a new lavish HSBC headquarters on the Bund in 1923. The North-China Herald explained that this occasion had taken on political dimensions since “…The Hongkong & Shanghai Bank is a cause of special pride to the British community [in Shanghai]…[I]t was here that it was born, here that it was nurtured, here that its policy was shaped and executed. It owes nothing to London and exists as a monument of spontaneous British financial genius continually adapting itself to the needs of a peculiar environment.” 46

The sentiments that Barlow had expressed led the Bank, as a whole, to critically underestimate the magnitude of the changes that were transpiring in China, and the degree


46 See North-China Herald, 30 June 1923, p. 860.
of adaptability it would have to show in the future in order to preserve its status in postcolonial East Asia. Like most 'Old China Hands' at the time, or the *North-China Herald* for that matter, Barlow misunderstood the polychromatic nature of the Chinese nationalist movement as well as the profundity of popular grievances on which it had fed. In February 1924 — just two months before he embarked on his 3-year tenure as Chief Manager — Barlow typically confounded the GMD's objectives with those of their more radical ally, the Chinese Communist Party: "I cannot think that Bolshevism will ever take great hold in China ... Sun [Yat-sen] himself dare not put his Bolshevist theories into practice". 47

5.3 The Big Bang of May 1925

What available data there is in HSBC's branch ledgers, Inspector's Reports and correspondence with Whitehall ministries clearly point to a dramatic drop in Mainland banknote circulation volumes in 1925. For Shanghai, data assembled in Figure 5.2 below, shows that the level of notes outstanding, which had reached $3.6 million mid-year, was more than halved toward the end of the year.

Figure 5.2
HSBC Circulation Volumes in Shanghai, 1914-1935

![Graph showing HSBC circulation volumes in Shanghai, 1914-1935](image)

Sources: *In HSBC GA: SHG II - 1023; SHG 343.1-5; SHG II 1044; London II – Box 8 Item 127 (Inspector's Report on Shanghai; GHO 96.2; GHO 13.2; SHG LEDG 294; In PRO: FO 371/13193; FO 371/18130; year-end 1935 based on King (1987), vol. III, p. 247

47 Barlow to Hillier, dated 28 February 1924, in HSBC GA SHG II 576.
A more comprehensive set of data from Shanghai as well as the lesser treaty-ports (then known as - 'outports') further highlights mid-1925 as a watershed in the vicissitudes of the Bank's China issue. Bearing in mind similar findings for CBIAC that were discussed at length in Chapter 3, these figures leave very little room to doubt the linkage between the May Thirtieth or Wusa Incident and the subsequent winding-down of Bank's Mainland issue. The second set of data are assembled in Table 5.3 below:

Table 5.3
HSBC Note Circulation in China through 1925 (Dollar-denominated Notes Only)

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Oct</th>
<th>Nov</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>3,604,060</td>
<td>3,426,060</td>
<td>3,645,060</td>
<td>3,169,286</td>
<td>2,133,060</td>
<td>1,877,060</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Beijing</td>
<td>498,525</td>
<td>491,060</td>
<td>?</td>
<td>?</td>
<td>142,050</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Tianjin</td>
<td>324,405</td>
<td>328,405</td>
<td>?</td>
<td>?</td>
<td>186,177</td>
<td>130,577</td>
<td>104,805</td>
<td>101,402</td>
</tr>
<tr>
<td>Xiamen</td>
<td>963</td>
<td>963</td>
<td>?</td>
<td>?</td>
<td>?</td>
<td>756</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

Sources: HSBC GA. For Shanghai, see SHG LEDG 294; GHO 96.2; GHO 13.2; for Tianjin, see SHG II - 28.2; GHO 96.2; for Fuzhou [Foochow], see SHG LEDG 1177 and GHO 96.2; for Yantai [Chefoo], Beijing, Hankou [Hankow] and Xiamen [Amoy], see HSBC GA GHO 96.2; very few Tael-denominated notes had been circulating in the treaty-ports by 1925, the majority of Tael notes outstanding were thought to have been hoarded or lost.

That the mid-1925 recoil in note circulation volumes could not have been on the Bank's own initiative is evidenced by a wad of five Bills of Lading in the Bank's records. The bills were issued by a banknote printing company in London between 8 October 1924 and 11 February 1925, with an inventory showing that only 3.5 months before the sudden outbreak of the anti-British disturbances, the Bank had actually been preparing to increase its Shanghai issue. The armoured note consignments were ordered from London in separate batches within a short space of time, most probably due to security reasons — the leading Western banks in Shanghai never employed local printers.

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48 See Bills of Lading, dated 8 October 1924 to 11 February 1925, in HSBC GA SHG LEDG 294; the notes were ordered from Waterlow & Sons, arriving in Shanghai about 40 days later. In the late-Imperial period, HSBC ordered notes from Barclays & Fry, another London printer.
The bills also provide insights into the production costs of quasi-foreign notes, to the extent that one may better determine their profit potential. The breakdown of printing and delivery costs is compiled in Table 5.4 below.

**Table 5.4**
*Note Printing, Shipment and Miscellaneous Costs*  
*B/Ls Aggregate (August 1924 – February 1925)*

<table>
<thead>
<tr>
<th>Total Face Value of Notes Ordered</th>
<th>SH$ 2 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denominations*Quantity Ordered</td>
<td>$5<em>200,000 pc and $10</em>100,000 pc</td>
</tr>
<tr>
<td>Shipping and Packaging Cost</td>
<td>GBP 87</td>
</tr>
<tr>
<td>Total Printing Costs</td>
<td>GBP 2,550</td>
</tr>
<tr>
<td>Design and Security Cost</td>
<td>GBP 1,065</td>
</tr>
<tr>
<td>Total Cost</td>
<td>GBP 3,702 or SH$ 33,142</td>
</tr>
</tbody>
</table>

Source: HSBC GA SHG LEDG 294; total cost does not include insurance for the five consignments involved; pound sterling is converted into (Shanghai) silver dollar values based on an implicit exchange rate for 1925 (1 SH$ = GBP 0.1117) calculated from Hsiao Liang-lin (1974), p. 192.

Merely allowing for a lower-end call-loan interest rate (3% p.a.); considering the fact that the notes often carried a premium over metallic money; and assuming a moderate shelf life of 20 years — it appears that at least during its pre-1925 halcyon days, the Bank’s branch in Shanghai could reap a return on banknote issuance, even if a worst case scenario required the immobilisation of 1/3 metallic reserve. In other words, the branch could earn approximately SH$ 760,000 in profits over a period of 19 years on a circulation volume of SH$ 2 million, if it efficiently channelled note silver proceeds to on-call borrowers. This conclusion belies the foundation of previous accounts of quasi-foreign banknotes in China, which tended to overstate the deadweight of production costs, while deprecating the notes’ remunerative aspect and presenting foreign banks as essentially concerned with rendering ‘public service’ to Shanghai’s denizens.  

It would be otherwise implausible to assume that the Bank was prepared to commit considerable resources to combating forgeries regardless of the contribution of note issuance to corporate revenue. Numerous records do in fact suggest that the Bank instilled counter-forgery alertness in its staff, and invested heavily in advanced note designs.  

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49 See, e.g., King (1990), pp. 22-23, 32-34.
necessary, branch managers did not hesitate to complain to Head Office about the poor quality of notes received from the London printers. In 1922, for example, the manager of the Shanghai branch accused Bradbury, Wilkinson & Co. of producing easily falsifiable notes, and suggested that a new batch Shanghai be ordered from Waterlow & Co., the latter having been previously commissioned to print the Bank’s Beijing notes.\(^{51}\)

Whatever ambivalence Head Office had expressed about the China issue before 1925, it did not arise as a result of disappointing returns or the amorphous legal framework of extra-territoriality, but because global Treasury quotas meant that bigger circulation volumes on the Mainland offset the Bank’s ability to issue in Hong Kong, where demand for notes, the premium they carried, and circulation velocity were much higher.\(^{52}\) Until 1925, therefore, the dynamics between Head Office and China branches allowed the latter to expand their issue in order to capitalise on the growing demand for reliable media of payments, but only within a range that did not imperil the Bank’s status as arbiter of money supply in Hong Kong.

Did the British banks of issue in East Asia — HSBC, CBIAC and MBI — directly benefit from this premium on notes, or was it simply the by-product of secondary market conditions? Whatever the answer, smaller banks continually flagged the premium to highlight what they perceived as grossly unfair competition in the Colony. In December

\(^{51}\) See entry for 29 December 1922 in HSBC GA SHG 1 – 764, f. 606; interestingly, an earlier Shanghai entry in the same file, dated 11 July 1919 [f. 65] suggested that there was no need to order a new batch since “...we have good supply of unsigned notes in hand...”. The difference between the two entries provides clear indication that, as HSBC notes became more popular in the early 1920s, attempts at forgeries grew more numerous.

\(^{52}\) This point is made eminently clear in a letter, entitled ‘Peking Agency Note Issue’, which A.H. Barlow sent to A.E. Baker of the Shanghai branch on 16 April 1924 – in HSBC GA SHG II 576; in essence, Barlow explained to Baker how the Mainland issue offset the Bank’s issue capacity in Hong Kong. He then told Baker that it was “unadvisable” for the Bank to increase its Beijing issue beyond $ 600,000 because the prevailing political uncertainty in the capital made HSBC notes extremely popular in Hong Kong, and that additional issues would be immediately hoarded, thus narrowing the Bank’s ability to balance off circulation volumes between the Mainland and the Colony; the premium on HSBC notes in Hong Kong was often the theme of discussions between the Colony’s government and the Treasury in London during the 1920s-30s, but there are much fewer references to a similar premium over metallic currencies on the Mainland – see, e.g., Barlow to Hillier, dated 6 January 1922 in HSBC GA SHG II 576. In that correspondence, Barlow recounted en passant that many deposits had been withdrawn from the Bank’s Mainland branches upon the outbreak of World War I, but that often the clients insisted on payment in HSBC notes rather than in silver.
1926, for example, the local manager of the P&O Banking Corp., L.E. Hopkins, wrote to the Colonial Treasurer that the premium on notes then was 10% above the cost of shipping HK$ coins from the Indian Mints, thus making coinage supplements by other banks to the Colony’s money supply unviable. Hopkins complained that, consequently, the Colony’s money supply was divorced from trade flows, and largely at the discretion of HSBC executives:

British silver dollars are not accepted in satisfaction of debt... all contracts and bargains are to be satisfied in banknotes... There is no limit to the discount at which the [HSBC] will receive British silver dollars in settlement of obligations, which the convention of the market agrees should be settled in bank notes.\(^{53}\)

On the Mainland, however, premium contingencies became irrelevant after 1925. The unprecedented scale of the anti-British demonstration following Wusa undermined the very foundations of the treaty-port paradigm, and put British banks at risk of being literally overrun. HSBC was forced to wind down its China issue between 1925-1927, first simply because of redemption waves, and later because of fears that similar disturbances might destabilise liquid cash reserves on the Mainland. Subsequently, HSBC’s role as leading bank of issue in Shanghai was quickly overtaken by a host of Chinese government-backed banks and, to a lesser extent, by an increased CBIAC issue.

Financial signs of distress from China were rapidly translating into turmoil in the stock exchanges too. Just prior to the May Thirtieth Incident, HSBC shares traded in Shanghai at SH$1300, while fetching GBP 143 in London per unit. By August 29, the share price had fallen by 15% and 11% in Shanghai and London respectively.\(^{54}\) HSBC shares were worst

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\(^{53}\) L.E. Hopkins to the Colonial Treasurer, dated 18 December 1926, in HSBC GA Currency F2.3, On the history of HK$ premia – see also the April 1930 report by the Hong Kong Currency Committee in Hong Kong Government Gazette, vol. 76 no. 35, pp. 383-383.

\(^{54}\) Share prices in Shanghai and London are based on the North-China Herald and the Financial Times respectively; interestingly, CBIAC and MBI shares, which traded exclusively in London, sustained a smaller price decline during the same period.
affected in the Hong Kong stock exchange. In early June 1925, the share traded at HK$ 1,290. By early March 1926, it had dipped as low as 1,065, a drop of 17.5%.  

Recognising the centrality of *Wusa* to the fate of foreign banking in China is crucial not only because of the drop in HSBC’s circulation volumes or share prices, but because the 1925 events are seldom mentioned by name — let alone adequately analysed — in the literature on overseas banking in Asia. The linkage between foreign note redemption during the anti-British boycott that was championed by the *Wusa* Movement, and the subsequent drop in HSBC’s Mainland circulation figures is not only manifest in Tables 5.2 and 5.3 above — it is also alluded to in in-house Bank correspondence. For example, in a telegram exchange between Barlow and the new Shanghai branch Manager, G.H Stitt, dated 19 June 1925, Stitt warned Barlow that reserves at the branch were “running low”, and asked him to intervene with the British Consul-General so that the latter would agree to unfreeze immediately the Bank’s $4 million reserve under his custody. Barlow, on his part, advised Stitt to conserve his cash tightly due to the long anti-British strike that he now anticipated.

That the Shanghai Consul-General was a custodian of a reserve roughly tantamount to the circulation volume in China did not imply that the Mainland issue *per se* had to be fully backed at that point in time. Attention should be paid to the fact that the Bank’s Head

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55 Hong Kong Share prices are based on the *South China Morning Post*. Trading in the colony was suspended between July and November 1925 as a result of the spreading disturbances; cf. Ku Hung-ting (1983), pp. 863.

56 See, e.g., the *History*, vol. III, pp. 62-63; surprisingly enough, the May Thirtieth Incident does not appear in the index to volume III of the *History*. Similarly, volume III does not discuss the evolution of circulation volumes in China before 1927.

57 Barlow to Stitt, dated 19 June, 25 in HSBC GA GHO 13.2, folio 28; Stitt resigned from the Bank in 1926 after 36 years of service – see the *History*, vol. III, p. 300. As explained in Chapter 3.4, the lack of reliable data on the foreign financial sector obscured the few contemporary reports that emerged in the Chinese press on the impact of the boycott of quasi-foreign notes. On 10 October 1926, the *Jingji xuebao* [Journal of Economics] briefly addressed the issue with these words (vol. II, no. 2, p. 271): “...HSBC banknotes had been popular in China ever since the use of paper money was [reintroduced] to the country. Following the tragic events of *Wusa* last year, Chinese [activists] have called for the severing of economic ties [with Britain]. The circulation of HSBC notes in the Chinese sector [diminished] somewhat thereafter, but was entirely unfazed in the foreign sector.”

58 For this view – see the *History*, vol. III, pp. 62-63.
Office in Hong Kong had to be called upon to contact the Hong Kong authorities, so that they in turn would approve the release of the reserve by the Consul-General in Shanghai. This suggests that the China issue was simply conceived of as part of the Bank’s general excess issue, which *by definition* required 100% backing in Hong Kong.

The Bank managed to have part of the excess reserve placed outside the central note reserve in Hong Kong no sooner than 1921. This is attested to in an upbeat telegram that Charles Addis sent from London to Stephen in Shanghai:

> Arrangement [is] now concluded with the Colonial Office regarding security of the Banks’ note issue. a) HM Government had no objection to the increase of the Bank’s authorised capital to $50 million. b) An ordinary note issue equal to issued capital of $20 million shall be one-third fiduciary and the balance of two thirds covered by coin or approved securities at the Bank’s option, while any excess issue over $20 million shall be fully covered in coin. C) It remained to be agreed what portions of the security should be held in places other than Hong Kong.\(^5^9\)

The conceptual tie-up of the China issue with the excess issue is attested to again in a memorandum sent, on Secretary Winston Churchill’s instruction, by the Undersecretary of State for the Colonies to the deputy of George Curzon, then the British Foreign Secretary. The memorandum indicated that HSBC had asked the Secretary to allow part of the note reserves to be kept outside Hong Kong, in Mainland localities where circulation was increasing.\(^6^0\)

Addis’ telegram and the Undersecretary’s memorandum imply that any Mainland note reserve that would have been kept by the Bank before 1921 was at the latter’s discretion.

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\(^5^9\) Addis to Stephen, dated 15 June 1921, in HSBC GA F1.1 (‘The Note Issue/Extracts from Sundry File Kept in the Chief Accountant’s Office’).

\(^6^0\) Undersecretary of State at Colonial Office to the Foreign Office, dated 2 June 1921, in PRO FO 371/6650, f. 154.
Until then, any treaty-port note reserves could not be deducted from the central reserve held against the total global issue in Hong Kong, and were certainly not required of the Bank by the Treasury or the Foreign Office. Moreover, it was the Bank rather than the Treasury, which sought to buttress the China reserves by having the Mainland issue linked with the global excess issue. This was a measure not only designed to protect the Bank from local runs, but also to abrogate an onerous overlap between informal local reserves and the formal central reserve.

The regulatory framework underlying HSBC’s banknote issuance after 1921 is summarised in Figure 5.3 below. In essence, it shows the Bank of England as the ultimate arbiter of British monetary policy, and as a trustee of HSBC’s non-metallic reserves. Charter guidelines and banknote reserve ratios applicable to all ‘Eastern Exchange Banks’, as well as the day-to-day monitoring of financial conditions overseas, were carried out by the Treasury in consultation with the Foreign and Colonial Offices. Colonial governments were then answerable to the Colonial Office insofar as reserve ratio enforcement was concerned. HSBC’s bullion and coin reserves were locked up in vaults under the farmer’s jurisdiction. But since Shanghai was nominally a part of the Republic of China, enforcement of HSBC reserve ratios there became the responsibility of the local British Consul-General, a Foreign Office employee.
The measure to formalise and buttress the status of the Shanghai reserves in 1921 may have saved the Bank's reputation on the Mainland from a more severe thrashing during the heady days of mid-1925. Even so, HSBC was hard-pressed to meet the redemption wave. The problem was that the Shanghai note reserve held under the Consul's trusteeship had been largely made up of precious Mexican dollars. These dollars carried a premium over debased Chinese dollar coinage, and the Bank was loath to disburse them. Hence, the Bank
persuaded Hong Kong’s Treasurer to allow it to transfer the Mexican dollars to the central reserve in the Colony, while replenishing the Shanghai reserves with Chinese dollar coins.\(^{61}\)

By early July, the enormity of the situation in Shanghai had finally registered with Barlow who, telegrammed Stitt: “It looks to me as if this British Boycott is the most dangerous thing we have been up against for many a long day and will, if it is maintained for any length of time, strain our resources severely…”\(^{62}\)

On 18 July 1925 the *Beijing ribao* reported on a massive run that had occurred on HSBC Shanghai branch:

> Since a popular boycott was declared on the British-owned HSBC, Shanghaiese depositors in this bank have flocked there to withdraw funds, especially clients elbowing their way to cash paper notes. At the time [of the present run], the Bank had already been squeezed between a rock and a hard place. It scraped through by the skin of its teeth with crucial assistance from a [Chinese] bank related to Yu Xiaqing [虞洽卿] and from some other avaricious banks, to the extent that it could breathe alive again.\(^{63}\)

The mainstream Chinese press in Shanghai was conspicuously lacking in reports on any dramatic anti-British bank stampede, and the fact that only a Beijing-based daily raised the allegations against ‘collaborative’ Chinese banks derogates from their reliability. It seems more likely that the pressure on British banks was applied incrementally, as student agitation was gaining ground. A rare local reference to the dynamics of boycott may be detected in a report carried by the Shanghai students’ mouthpiece *Rexue ribao* [Hot-Blooded Daily] on 7 June 1925:

> Ever since calls for the boycott of quasi-foreign banknotes spread across Shanghai, there has been unusually heavy traffic of clients wishing to withdraw funds from foreign banks or encash quasi-foreign

\(^{61}\) Hong Kong Colonial Treasurer to Barlow, dated 25 June, 1925, in HSBC GA GHO 13.2 f. 45; Stitt to Barlow, dated 30 June, 1925, in HSBC GA GHO 13.2 folio 52.

\(^{62}\) Barlow to Stitt, dated 3 July 1925, in GHO 13.2 folio 50.

\(^{63}\) Cited in Pan Liangui (2004), pp. 126-127; the Chinese bank implicated was rumoured to be Yu’s *Siming yinhang* 四明銀行 but it promptly denied the allegations – see Du Xuncheng (2002), p. 84; cf. Du Xuncheng (2003), pp. 85-86.
banknotes. The HSBC was worst affected, [with clients streaming to withdraw funds]...from morning to noon without respite. This Bank’s predicament is now extremely precarious.64

Either way, Barlow was so alarmed at the anti-British wave that he recommended the immediate withdrawal of treaty-port issues except in Shanghai. This was because, unlike Shanghai, outport issues had always been covered by the central Hong Kong reserve, and because no other local reserve in China was recognised by the Treasury. The outport issue was therefore “weapons in the hands of agitators”. Then, Barlow went on to compare the volatility of the Bank’s issues in China with the monetary setting in Hong Kong: “In Hong Kong conditions are not the same, as we can always rely on the Hong Kong Government to enact protective legislation in the event of a concerted attack being made on our note issue here.” 65

Barlow knew, of course, what he was talking about. As was shown in Chapter 3.5 – shortly before the Wusa disturbances had spread to the Pearl River Delta, the Hong Kong government had imposed severe caps on note redemption, silver withdrawals, and capital movement between the Colony and the Mainland. This emergency legislation was a precondition set by the Bank and CBIAC for the grant of a loan on the order of HK$ 6 million designed to bail out ‘native banks’ in the Colony. The new restrictions unleashed a frantic wave of silver smuggling across the border into Guangdong province, but may well have saved HSBC and CBIAC from a run on their banknotes within the Colony.66

Meanwhile, the situation was rapidly deteriorating in Shanghai. On July 2, Stitt telegraphed Barlow that local note circulation was already down by $ 0.5 million since the disturbances started, and that Chinese clients were also withdrawing funds from current accounts “rather freely”.67 A week later the circulation volume sank to a record low of $

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64 See Rexue ribao, 7 June 1925, p. 2; cf. Appendix 2.2.
65 Barlow to Stitt, dated 3 July 1925, in HSBC GA GHO 13.2 folio 50.
66 In fact, the Bank’s HK$ circulation volume rose through 1925-6 because of the moratorium on coin withdrawals and concurrent run on ‘native’ banks’. For background details – see South China Morning Post, dated 2 July 1925, p. 2.
67 Stitt to Barlow, dated 2 July 25, in HSBC GA GHO 13.2, f. 54; the wording of Stitt’s telegram suggests that notes were more vulnerable to popular runs than current accounts or fixed deposits because they were redeemable on demand.
2.7 million in Shanghai and $0.66 million in the outports, whereas total liquid cash reserve (excluding the Mexican dollars entrusted to the Consul) stood at only $1.8 million.\(^{68}\)

The permanent shift in the Bank’s strategy with regard to its China issue occurred in the course of the following two months. On July 13, Stitt reported that the cash position of the branch was improving, and that he might not have to draw on the $4 million Consular reserve.\(^{69}\) Three days later Stitt even thought he detected signs that the vehemence of the boycott against HSBC notes on the Mainland was subsiding, with the Shanghai circulation now at $2.4 million – only $0.3 million less than the week before.\(^{70}\)

Barlow, however, who would have witnessed the spillover of disturbances into South China in late June, remained unconvinced. On August 5, he instructed Stitt to completely stop reissuing redeemed notes in all Mainland branches in anticipation of more runs.\(^{71}\) And on August 17, he imposed a cap of $2 million on the Shanghai circulation volume.\(^{72}\) Apart from helping to stave off future runs in Shanghai, Barlow also hoped that the decreased circulation volume in China would free up the reserves held against it in Hong Kong to use as cash in claims on the Bank in the Colony or, alternatively, underpin an increase of note issuance there.\(^{73}\)

Ironically, while the Wusa disturbances put a downward pressure on the Bank’s circulation volumes in China – they buoyed up demand for HSBC notes in Hong Kong, because the new colonial government restrictions there meant that individuals could not withdraw silver from the banks freely. Receipt of a limited amount of notes was the only way to draw deposits from either Chinese or foreign banks in the Colony.\(^{74}\)

\(^{68}\) Stitt to Barlow, dated 8-9 July 1925, in HSBC GA GHO 13.2, f. 69.

\(^{69}\) Stitt to Barlow, dated 13 July 1925, in HSBC GA GHO 13.2, f. 71.

\(^{70}\) Stitt to Barlow, dated 16 July 1925, in HSBC GA GHO 13.2, f. 81.

\(^{71}\) Barlow to Stitt, dated 5 August 1925, in HSBC GA GHO 13.2, f. 111.

\(^{72}\) Barlow to Stitt, dated 17 August 1925, in HSBC GA GHO 13.2, ff. 121-122.

\(^{73}\) Barlow to Stitt, dated 24 July 1925, in HSBC GA GHO 13.2, f. 83.

\(^{74}\) Barlow to Stitt, dated 23 June 1925 in HSBC GA GHO 13.2, f. 43; in this telegram, Barlow indicated, amongst other things, that “Head Office note issue [in Hong Kong] has so heavily increased that it is probable we shall require at least $2 million of our [Consular note reserve] deposit in Shanghai retained as cover; for background details on the situation in Hong Kong and unusual demand for HK$ notes at that time – see the Times, 23 June 1925, p. 16; see also Sinn, Elizabeth (1994), pp. 33-35; in all, however, HSBC’s global circulation volume fell from the equivalent of HK$ 49.6 million in December 1924 to HK$ 45.2 million in
The other factor which stoked up demand for HK$-denominated HSBC notes was the fact that trade between the Colony and the wider Delta was effectively cut off. This meant that Cantonese silk producers whose goods had been exported via Hong Kong’s deep-water port, could not use the sales proceeds to purchase imported products for transport upriver because border passages were blocked. Many, therefore, chose to smuggle the proceeds over the border — and notes were harder to detect than goods.75

By mid-1926 the impetus of the disturbances had clearly begun to wane across the Mainland. The Maritime Customs report published in 1926, while lamenting the impact of the anti-British boycott, could wishfully point to a silver lining:

The Shanghai incidents of the 30th May, with their counterblast in the South, bade fair to paralyse trade; but the strike and boycott movements were soon restricted to certain centers only, and what could not be shipped or imported through Shanghai or Canton [Guangzhou] found its way in many cases through neighboring ports or through other large seaports such as Tientsin [Tianjin]. Exception being made for the southern and, principally, the West River ports, the Shanghai incidents were but a temporary set-back to trade in general.76

The subsequent period saw scattered, intermittent conflicts between locals and expatriates in some of the outports that never degenerated into a countrywide backlash. Nonetheless, the enormity of the past year resonated as far as Whitehall, as a glacial transition in Western attitudes toward China set in. On 4 June 1926, Barlow informed his new branch manager in Shanghai, A.B. Lowson, that the British Government was sounding out prominent figures amongst its nationals in the treaty-ports on the future course that its China policy should take.77

December 1925 – see Bankers’ Magazine, vol. 121, pp. 643-644 for 1924; vol. 121, pp. 768-777, for 1925. CBIAC circulation patterns in Shanghai and Hong Kong through 1925-6 are negatively-correlated in much the same way.

75 Barlow to Stitt, dated 5 October 1925, in HSBC GA GHO 13.2, ff. 225-226; on the silk industry in South China – see also Chapter 3.5 below.

76 The Foreign Trade of China (1926), p.1; The China Association Annual Report for 1925-26 also noted anti-British sentiments were largely “abating” – see SOAS CHAS/A8.

77 Barlow to Lowson, dated 4 June 1926, in HSBC GA GHO 13.3.
In the years to come, Whitehall came to question the views of its hard-line expatriates in China — wealthy taipans and plebeian Shanghaileaders alike. The sheer import of the shift in Britain’s China policy sprawls beyond the scope of the present thesis, however. Suffice it to say here that, amongst other things, the shift ramified into tighter administrative supervision of British banknote issuance in the treaty-ports during the late 1920s.

The first harbinger surfaced in August 1926, when Head Office informed Lowson that, from then on, the British authorities would require all British banks of issue in China to apply for licence if they wished to continue disbursing notes. But far more stringent demands were to be posed by the new Nationalist government.

5.4 The Nanjing Decade (1927-1937)

The transition in Britain’s policy toward China was taking shape, while the Northern Expedition (beifa 北伐) was underway. It saw the Nationalists pushing from their stronghold in South China toward Shanghai against regional warlords between 1926-1927, and finally proclaiming their capital in Nanjing in 1928. Short of eliminating warlordism, the Expedition was an attempt by Jiang Jieshi [Chiang Kai-shek] — the successor of Sun Yixian [Sun Yat-sen] as GMD Chairman and an inveterate militarist himself — to claim the centre-stage of Chinese politics. The notorious bloodbath in Shanghai on 12 April 1927, during which Jiang joined forces with the city’s underworld and mercantile elite to crush the Communist Party and its local sympathisers was the cue Whitehall needed to endorse its new agenda in the region. A unified China under Jiang now seemed less of a threat, so long as the generalissimo was prepared to reach a compromise over the future of extraterritoriality without taking unilateral steps.

For HSBC and the other British banks this meant trouble, because their strength and prestige in China hinged on privileges that extraterritoriality had lent since 1842. The British bankers in Shanghai dreaded challenges to the status-quo that a new Nationalist government might pose. When its sway was prescribed to Guangdong, the GMD introduced tough measures to discourage people from using British HK$ notes or dealing with foreign

78 Head Office to Lowson, dated 24 August 1926, in HSBC GA GHO 13.3.
banks in general. If the Nationalist thrust were to assert itself over a larger swathe of the country, British banks' domination of the Chinese foreign exchange market, and their ability to mobilise resources locally would be jeopardised.

Nonetheless, the degree of unification that GMD territorial expansion ushered in proved much less of threat to foreign banks than first thought — the first few years of nationalist rule were marred by residual warlordism and an irresolute stand on the foreign presence. Monetary fragmentation prevailed, while the enthusiasm that had stoked up the Wusla Movement had been consumed by the killing of hundreds of labour activists in the 1927 raid on the Communist Party. With fresh doubts emerging as to the real clout of the new government, demand for HSBC banknotes in Shanghai soon reached the SH$ 2 million cap, which Barlow had imposed in August 1925. By August 1927, therefore, the upper limit on the China issue had to be revised to $ 2.5 million.

The Bank was still wary of new runs on its notes, but it did not contemplate voluntarily renouncing the China issue. Furthermore, in late September 1927, Lowson pressed Head Office to reconsider its positions, and allow him to issue notes beyond the $ 2.5 million cap, but was promptly rebuffed. This was because Head Office feared that, under the prevailing political circumstances, any increase in the Shanghai issue would immediately be hoarded, impinging on the Bank's latitude to balance off circulation volumes between the Mainland and Hong Kong when demand in either place spiked up.

As from early 1928, changes in Foreign Office attitudes toward China translated into pressure exerted by the British Legation in Beijing and the Shanghai Consulate on HSBC Head Office to provide accurate monthly reports on the volumes of its notes in circulation on the Mainland, and the size of reserves set against them. The fact that such a request

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81 See anonymous handwritten remark in a Shanghai banknote ledger, which made reference to a Semi-Official letter that had apparently been sent from Head Office on 10 August 1927, advising the branch that the Mainland circulation cap was placed at $ 2.5 million – in HSBC GA SHG LEDG 294.
82 See Head Office to Lowson, dated 20 September 1927, in HSBC GA GHQ 13.4, f. 274; once again, Head Office resisted the pressure from Lowson to increase the China issue because it was wary of the hoarding of new notes, which was likened to “pouring water into a bottomless well”. Head Office then added that “…in these disturbed times we want to keep our note issue as low as possible outside Hongkong...”.

specifically addressed the Mainland rather than Hong Kong for the very first time, suggests that foreign bank note issue prerogatives were becoming a diplomatic 'hot potato' soon after the inauguration of the Nanjing government.\textsuperscript{83}

While the Shanghai Consulate asked for the "total amount of [HSBC] banknotes circulating in China", the Bank could only provide accurate figures on quasi-foreign note issued from the treaty-ports branches; it possessed no data on the amount of its HK$ notes in use across the border: "It is obvious of course that we cannot have the slightest idea of the amount of Hongkong notes in circulation in Canton or China."\textsuperscript{84}

To what extent did the rise of GMD power in the late 1920s play a role in highlighting the Mainland issue? Determining the answer is of consequence, not least because the previous account of the Bank's policy toward its Mainland issue suggested that Head Office had steadily phased out notes in the treaty-ports since 1921, essentially due to lack of profitability, thereby denying any agency to Chinese policymakers.\textsuperscript{85} But a detailed set of data for 1927 and 1935 demonstrates below that the China total clearly rebounded from the post-\textit{Wus"a} ebb by December 1927, and one cannot completely rule out the possibility that it continued to climb higher for some time afterwards despite a downtrend in the outports.

\textsuperscript{83} A. Eugenes at Head Office to Lowson in Shanghai, dated 4 January 1928, in HSBC GA GHO 13.4, ff. 376-379; see also closely related letter from the Foreign Office to the Chief Manager of MBI, dated 1 March 1928, in HSBC GA Fl.1 ("The Note Issue").

\textsuperscript{84} A. Eugenes at Head Office to Lowson in Shanghai, dated 4 January 1928, in HSBC GA GHO 13.4, ff. 376-379

\textsuperscript{85} The \textit{History}, vol. III, pp. 61-65, 246-250.
Table 5.5
HSBC Mainland Branch Circulation, 1925-1933
Unit: Silver Dollar

<table>
<thead>
<tr>
<th></th>
<th>Jan-Feb 1925</th>
<th>Sep-Nov 1926</th>
<th>Dec 1927</th>
<th>Dec 1933</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>3,604,060</td>
<td>1,428,060</td>
<td>2,158,460</td>
<td>1,142,254</td>
</tr>
<tr>
<td>Beijing</td>
<td>498,525</td>
<td>108,050</td>
<td>32,050</td>
<td>9,160</td>
</tr>
<tr>
<td>Tianjin</td>
<td>325,577</td>
<td>71,393</td>
<td>41,563</td>
<td>17,033</td>
</tr>
<tr>
<td>Yantai [Chefoo]</td>
<td>118,536</td>
<td>11,200</td>
<td>2,050</td>
<td>1,200</td>
</tr>
<tr>
<td>Hankou</td>
<td>63,980</td>
<td>8,270</td>
<td>5,577</td>
<td>3,382</td>
</tr>
<tr>
<td>Xiamen [Amoy]</td>
<td>963</td>
<td>701</td>
<td>698</td>
<td>615</td>
</tr>
<tr>
<td>Fuzhou</td>
<td>660</td>
<td>660</td>
<td>660</td>
<td>667</td>
</tr>
<tr>
<td>China Total</td>
<td>4,612,301</td>
<td>1,628,334</td>
<td>2,241,058</td>
<td>1,174,311</td>
</tr>
</tbody>
</table>

Sources: HSBC GA GHO 96.2; PRO FO 371/13193, FO 371/18130; PRO Figures are in HK$ units.

That HSBC circulation volumes in Shanghai, and by implication in China, rebounded circa 1927 would be meaningless, unless we bear in mind the CBIAC circulation pattern, as shown in Figure 3.4, showing a marked surge in the China total as from mid-1927 right until mid-1932, even beyond the pre-Wusa level. If British bank note issuance in China were becoming both politically fraught and unremunerative, it would not have rebounded in quite the same way as it had circa 1927.

A more plausible explanation is that, despite proclamations to the contrary, HSBC and CBIAC were not prepared to give up the note issue in the face of popular onslaught and the establishment of a central government in Nanjing precisely because the issue was profitable. The two banks were eventually made to renounce the issue by Wusa and its longer-term ramifications — e.g. GMD monetary reform measures and militation against extra-territorial privileges.

The political climate in 1927 was manifest in a rare article that was published in the otherwise moderate organ of the Chinese bankers’ association, the Yinhang zhoubao. Aptly titled 'The Problem of Clamping Down on Quasi-Foreign Notes' (Qudi waichao wenti 取締外鈔問題), the article offered one of the first analyses of how GMD government resolve,
predicated on the experience it had acquired in combating HSBC HK$ note in Guangzhou through 1926, promised to deliver where previous Chinese governments had failed.86

Yet, this newfound determination to root out foreign bank prerogatives did not immediately translate into tangible achievements. HSBC data on circulation figures in the outports between 1927 and 1932 are lacking, but Table 5.5 above suggests that a moderate rise even after 1927 may have occurred, particularly in light of a similar pattern in the CBIAC Shanghai branch. Similarly, a letter from Head Office to A.B. Lowson in Shanghai, dated 4 January 1930, suggests that the Bank’s local note reserve entrusted to the Consul-General totalled $6 million at that time, $2 million more than in 1925.87 Apart from the heightened probity with regard to sudden runs, the figure may also suggest rising circulation volumes on the Mainland some time after 1927.

The difference in the status of the Mainland note reserve was equally significant. The same letter implies that by the early 1930s, Hong Kong’s government had been prepared to recognise part of the Shanghai reserve as appropriate cover for larger circulation volumes in the Colony toward the Lunar New Year — hitherto only the central Hong Kong reserve had been formally recognised for this purpose. This would have allowed the Bank to manage its global note circulation more flexibly, reducing overlap between formal and informal reserves and reinforcing issue properties in the outports.

At the same time, the large number of pertinent press clippings in the Bank’s records suggest that it was closely monitoring popular sentiments against its note issue in China. In February 1930, Head Office wrote to Lawson that reports in the Chinese press on a dramatic increase in quasi-foreign banknote circulation were “pure invention” and that the quantity of such banknotes was probably “infinitesimal” compared with Chinese bank notes.88 Curiously, the letter did not address specific HSBC or other foreign bank circulation numbers, focusing instead on the growth of domestic banks of issue and on the fact that “[t]here has been much talk about stopping the foreign banks from issuing vast numbers of notes in China”. Lowson, at any rate, was instructed to deny the reports because “...as you know, we do not wish our issue to go up in Shanghai.”

87 Head Office to Lawson, dated 4 January 1930, in HSBC GA GHO 13.6.
88 Head Office to Lowson, dated 10 February 1930, in HSBC GA GHO 13.6, ff. 236-237. The author of the letter may seems to have been oblivious to the rise CBIAC’s China circulation volume.
To what extent, then, were Chinese bank notes taking centre-stage in the early 1930s? In a confidential letter from G.E. Hubbard, the Bank's Shanghai-based political advisor, to V.N. Grayburn who had been appointed Chief Manager in 1930, Hubbard reported that notes issued by Chinese banks in the city now formed the "chief" medium of currency in "...Central China, the Yangtsze [Yangzi] Valley up to Ichang [Yichang]." Hubbard estimated that in 1930 the total circulation volume of Chinese bank notes — of which five government-backed banks were the principal movers — was $290 million, while quasi-foreign money amounted to only $5 million. The progress Chinese banking made was impressive inasmuch as it dwarfed the foreign treaty-port issue, but Hubbard’s wording leaves some room to doubt whether Chinese banknotes were an omnipresent feature of the economy in Western China even at this late stage.

The universalisation of notes by GMD-backed Shanghai-based banks, and the tightening of foreign bank supervision, roughly coincided with Japan’s annexation of Manchuria (1931), which set the stage for a closer Anglo-Chinese diplomatic rapprochement and a currency war between anti and pro-Japanese banks of issue in Northeast China. On January 1932, Hubbard envisioned a settlement whereby Japan could be persuaded to recognise Chinese sovereignty in Manchuria in return for GMD moves to curb anti-Japanese demonstrations in Shanghai and to repay the controversial Nishihara loans. Either way, Hubbard was pleased to report that, in view of its unravelling conflict with Japan, the GMD government “...has indefinitely postponed the unilateral abolition of extraterritoriality fixed for January 1st”. He thought that the Japanese threat might actually be a boon to foreign

89 Hubbard to Grayburn, dated 26 January 1931, in HSBC GA SH I - 52.1.
90 Hubbard to Grayburn, dated 26 January 1931, in HSBC GA SH I - 52.1; as regards bank note reserves, Hubbard observed that Chinese law now “...requires a minimum of 60% in sycee”, and that the circulation was administered by five principal banks.
91 On the spread of Chinese banknotes and foreign bank oversight – see, e.g., Gongshang banyuekan dated 19 March 1931, p. 12.
92 Hubbard to Grayburn, dated 11 January 1932 in HSBC GHO 98; Nishihara Kamezô was Japan’s special envoy to China. In 1917-1918 he negotiated a controversial 145-million yen loan agreement with the Beiyang government in return for Chinese territorial concessions in Shandong. See, e.g., Beiyang junfa shi, vol. 1, pp. 509-52; Hubbard’s stance reflected British official policy of appeasing both Chinese nationalists and the Japanese. However, it was out of touch since one of the immutable pillars of Nanjing government policy was the refusal to recognise warlord-era debts to the Japanese – see, e.g., Paauw (1950), p. 283, 294-295.
business, and reported that the British Chambers of Commerce believed it averted the need for Britain to launch a costly war against China to preserve extra-territoriality.

Hubbard’s dalliance with Weltpolitik was by no means atypical of a Bank with such longstanding presence in the region. Yet, in a sense, its presumption might betray ignorance of the changing balance of power in Shanghai’s financial markets, which seem to have eclipsed HSBC’s eminence considerably. A second glance at Figure 5.1 above is to remind readers that as late as 1915 HSBC branch holdings accounted, according to its own in-house data, for 42% of Shanghai’s silver stock. Yet, 17 years later, fairly reliable Bank of China data put the figure at just 18%. The full dataset is charted in Figure 5.4 below:

Figure 5.4
Bank Silver Stocks in Shanghai, 1932 Year-end

![Pie chart showing bank silver stocks in Shanghai, 1932 Year-end]

Total: SH Ts. 290.6 million

Source: Zhongyang yinhang yuebao ['Central Bank Monthly'] vol. I no. 5 (Dec. 1932), pp. 894-895. As from 1932, Chinese government data on the foreign financial sector seems increasingly detailed. This was arguably because prominent foreign bankers had been persuaded to join national advisory bodies like Shanghai’s Joint Reserve Committee. See, e.g., Quanguo yinhang nianjian [The All-China Banking Yearbook], vol. II, 1934-5, Section D, p. 32. However, foreign banks continued to withhold information on local banknote circulation volumes or China branch balance-sheet totals until the abolition of extra-territoriality in 1942.
The diminishing share of the Bank in Shanghai finance could not have been unrelated to developments in the wider arena. Despite Japanese encroachments, GMD monetary and banking reforms proceeded with a vengeance, dispelling any illusions foreign bankers might have entertained about a letup in the campaign against their treaty-port prerogatives. To be sure, HSBC executives continued to express some scepticism toward Chinese monetary unification, but were now more aware of the price they would have to pay if accused by the GMD of obstructing the national agenda of state-building. Nowhere was this more evident than in the way the Bank reacted to GMD preparations for the demonetisation of sycee in mid-1932. On July 1932, for example, Head Office informed F.B. Winter, the Sub-Manager in Shanghai, that it was opposed to the attendant abolition of the tael unit of account, in all its multifarious forms, because of fears that government-minted dollars would be debased soon afterwards.93

On March 16, 1933, shortly after the abolition of the tael had been proclaimed, HSBC’s new Political Adviser, W.C. Cassels, wrote to the British Consul-General in Shanghai, J.W.O. Davidson, that HSBC and other foreign banks viewed recent developments with apprehension, because of fears that it might foreshadow attempts to depreciate the silver contents of the Chinese currency.94

Nonetheless, by April 1933, Grayburn, the Chief Manager, conceded in a letter to A.S. Henchman — who had replaced A.B. Lowson as Shanghai Manager in 1930 — that the tael system had been “antiquated”, and that if the Chinese government were “in earnest in [its] endeavour to work with one currency for China and will see that silver dollars are kept to standard, I do not think [f]oreign banks have a leg to stand on in opposing their wishes...”.95 Grayburn’s conciliatory tone toward the reform may have inevitably ensued from the resounding success of the abolition of tael. But, perhaps more importantly, his wording reflected the astute manner in which GMD officials cajoled foreign banks into

93 Head Office to Winter, dated 18 July 1932 in HSBC GA GHO 13.8, ff. 58-59.
94 Cassels to Davidson, dated 16 March 1933, in HSBC GA SHG 1 –52.1.
95 Grayburn to Henchman, dated 10 April 1933, in HSBC GA GHO 13.8, ff. 333-334.; in this letter, Grayburn expressed his concern that overt foreign bank opposition to Chinese reforms might escalate their unpopularity. He made these comments in response to a telegram from Henchman, dated 7 April 1933, indicating that the British-appointed Maritime Customs Inspector, Frederick Maze, was trying to rally the foreign banks to obstruct the abolition of the tael. In HSBC GA GHO 13.8, ff. 336-337; on the abolition of the tael – see also China Press clipping, dated 10 March 1933 in HSBC GA SHG 1 –52.1.
backing the reform by offering them seats on the Advisory Board that was to oversee its long-term implementation.  

The smooth abolition of the tael was carried out in the face of the persistent scepticism shown by the expatriate British community in Shanghai, and demonstrated in action rather than words the GMD resolve to work toward uniform national currency. When coupled with rising world silver prices, the reform engendered an irreversible turnaround in quasi-foreign circulation volumes in Shanghai. In early 1934, the city’s leading expert on currency, Edward Kann, estimated paper money circulation as follows:

<table>
<thead>
<tr>
<th>Table 5.6</th>
<th>Paper Money Circulation in Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Banks</td>
<td>3.7</td>
</tr>
<tr>
<td>Chinese Banks</td>
<td>271.3</td>
</tr>
</tbody>
</table>

Source: Article by Edward Kann in the Shanghainese English-language magazine Finance & Commerce, dated 10 February 1934, clipped in HSBC GA SH I - 52.1

The figures in Table 5.6 are indicative of the growth of Chinese modern banking in general, but readers should still bear in mind that a total circulation of $350.6 million, issued by Chinese banks in Shanghai but designed for use in all of China, did not necessarily marginalise metallic currencies even at that stage. Rather, the figures should be looked at in regional perspective: in Hong Kong alone British banks circulated as much as HK$ 157.5 million in December 1933. In other words, the comparison with Hong Kong advances the proposition that a large swathe of China was characterised by low monetisation right up until the introduction of a uniform fiat currency in 1935. Kann’s data did not include

96 On the involvement of HSBC and other leading foreign bankers in Chinese government deliberations on monetary reform, particularly with regard to new minting quality safeguards – see China Press clipping, dated 11 May 1933, in HSBC GA SHG I – 52.1; see also Chinese Central Mint Advisory Committee report, dated 8 August 1933, in HSBC GA SHG I – 61.

97 See Hong Kong Blue Book, December 1933 issue, Section on Currency and Weights (R1).

98 This proposition is supported by what British envoy, Sir Frederick Leith-Ross, heard from Chinese Finance Ministry officials upon his arrival in the region in late 1935: “...[t]hey assured me that the experience of the past two years [italics added] during which the Bank of China had been gradually putting notes into
information on note issuance by Japanese banks in occupied Manchuria — but this does not invalidate the argument for much of China’s western provinces.

About a year after the abolition of tael, quasi-foreign note circulation volumes were affected by an exogenous shock yet again. Pressured by regional mining interests in the Congress, the administration of US President Franklin Delano Roosevelt embarked on its Silver Purchase Policy, designed to lift America out of recession in 1934.\(^9\) One of the immediate side-effects of this policy was that China — now the only country in the world to cling to the silver standard — saw a rapid erosion in her terms of trade, which slashed exports and crippled the industrial base of the treaty-port economy.

Worse still, China’s money supply was being depleted because the US price of silver edged above the nominal exchange value of the Chinese silver dollar with other currencies, resulting in incessant waves of sycee exports from Shanghai to America either directly or via London.\(^10\) The implication for China’s economy was double-pronged. First, after years of inflation and debasement, China’s metallic currency was appreciating artificially on the cross-rates. It made imports cheaper, thus dampening the relative price of agricultural produce and hitting living standards in the rural hinterland. But, much more importantly, it made simple business sense to buy silver dollars in Shanghai for US dollars or other foreign currencies and melt them into silver.

A downturn had already loomed on the horizon in 1931 when Britain came off the gold standard. Then, on 19 June 1934, the US Congress passed the Silver Purchase Act in a bid to re-vitalise the silver mining industry and alleviate conditions in several Midwest states. The immediate impact was a drastic depletion of Chinese silver reserves in favour of much

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\(^9\) Friedman and Schwartz (1963), pp. 483-492.

\(^10\) See China Press report entitled ‘Silver Rush Begins’, dated 22 August 1934, in HSBC GA SH 1 - 52.1. The report warned that “…unusual banking activity has been witnessed over the week-end…[the banking district was crowded with] coolies carrying boxes and bars of precious metal…exports from Shanghai reached 90 million dollars [since introduction of the new American silver policy];” see also Slater (1934), pp. 20-27.
higher prices in the New York and London commodity exchanges. China was thus belatedly drawn into the whirlwind of the Depression.\textsuperscript{101}

In such circumstances, maintaining a metallic silver reserve against notes outstanding in China (and Hong Kong) meant rising opportunity costs for domestic and foreign banks alike. Because no one but America could stem the rise in silver prices, the Chinese economy was now facing an acute liquidity crisis, in which not only her exports were hit, but the very foundation of her money stock was also thrown into question.

After repeated Chinese representations to the Roosevelt administration to change course had failed through late 1934 and early 1935, a daring initiative took shape in discussions between Kong Xiangxi [H.H. Kung], Song Ziwen [T.V. Soong] and Jiang Jieshi [Chiang Kai-shek].\textsuperscript{102} Though they were driven by different personal agenda, the three concurred that China should ride on the momentum afforded by US policy to divorce Chinese currency of silver, thereby clawing back greater government latitude in the monetary realm, and reap a windfall from the sell-off of the silver stock while prices were at their highest for decades.\textsuperscript{103}

The initiative was fraught with theoretical and practical difficulties — implementation would require absolute secrecy to foil speculators’ pre-emption and at least a semblance of wide international endorsement. Thus, when asked during a carefully orchestrated interview

\textsuperscript{101} Slater (1934), pp. 3-14; Sheehan (2003), p. 163; some scholars have argued that US silver policy did not affect China’s economy radically – see the debate between Friedman (1992), Brandt and Sargent (1989) and Rawski (1993).

\textsuperscript{102} On 20 February 1934, Henchman reported to Grayburn that H.H. Kung, the Chinese Finance Minister, and other high-ranking Chinese officials had sent a “strongly-worded” message to Roosevelt in attempt to persuade him to abrogate the Silver Purchase Policy – in HSBC GA SHG 52.1; see also article in the North China Daily News, dated 8 January 1935, reporting that Alfred Sze, China’s Minister in Washington, was seeking from the US Administration a promise to lower the silver content of the US dollar so that world prices of silver stabilise. These overtures had been paralleled by a rumoured Chinese proposal to sell the Americans silver in return for gold, which Secretary of State Cordell Hull subsequently denied; on the Chinese government frantic attempts to stem the outflow of silver from China by imposing a surcharge on silver exports – see, e.g., report by the Kuo Min News Agency, dated 14 October 1934, clipped in HSBC GA SHG 52.1.

held in late 1934, whether China would resort to fiat currency to stem the flight of silver, Generalissimo Jiang replied:

A paper standard of currency is absolutely unsuitable for China...[T]he [Chinese] government does not attempt to adopt such a measure. 104

Denials notwithstanding, the Chinese Ministry of Finance had already been bracing itself for the abolition of silver-convertible notes of all provenance. On the same day the interview with Jiang Jieshi was published, the Chinese press reported that the Ministry established a study group to examine the problems arising from quasi-foreign note issuance, and make preparations for the full recovery of monetary sovereignty by government banks, in conformity with financial practices in other countries. 105

Connected to the innermost circles of Chinese politics, the Bank soon got wind of the intense deliberations that Ministry officials were conducting. In October 1934, in a letter to Henchman, Grayburn was almost able to second-guess Chinese government intentions. He was convinced that “...the Chinese cannot maintain a managed currency, while stocks of silver are still in the hands of the public”. 106 But what disturbed Grayburn more than the choice of China’s future currency was the government’s “...obvious determination to oust foreign banks.”

Unlike many of its competitors, the Bank seems to have bucked the trend to cash in on arbitrage in silver prices between China and world markets. On November 1934, Grayburn’s newly-appointed deputy, E.J. Davies, wrote begrudgingly to Henchman from Head Office that foreign banks were busy transhipping large quantities of smuggled-in Mainland silver via Hong Kong — and that CBIAC was prominent amongst the offenders. But arbitrage resulted in increased profits for the Exchange Banks even if they had not been involved in overt smuggling, as Davies noted: “...We continue to sell sterling and silver against it, which is very profitable, but one would wish to see profits from a less fortuitous source.” 107

104 See Kuo Min News Agency Brief (‘Translated Interview with Chiang Kai-shek’), dated 26 December 1934, in HSBC GA SHG 52.1.
105 English translation from Xinwen bao [Sin Wan Pao], 26 December 1934, clipped in HSBC GA SH 52.1
106 Grayburn to Henchman, dated 22 October 1934, in HSBC GA GHO 13.9.
107 Davies to Henchman, dated 22 November 1934, in HSBC GA GHO 13.9.
It may well have been those foreign bank practices that sparked a fresh wave of resistance against the prevalence of quasi-foreign notes and further militated the GMD government to take on the foreign banks. In spite of the fact that quasi-foreign circulation volumes in early 1935 were much less significant than had been the case in 1925, Chinese bankers were particularly vocal in demanding that an end be put to foreign bank privileges.

On 28 February 1935 the Shanghai English-language daily *China Press* published, for example, an article under the heading “Native Bankers Renew Agitation Against Note Issue by Foreign Banks”. The article reported on several petitions that were presented to the Ministry of Finance against HSBC and other foreign banks, which were allegedly poised to resume massive note disbursement in Shanghai in order to “…absorb the silver reserves in the Chinese market” for export to America. In response to these allegations, a Ministry spokesman described the existence of quasi-foreign notes as “…non beneficial to the country’s economic fibre.”

The CBIAC and HSBC data presented above suggest that the petitions actually lagged behind market trends. The circulation volume of CBIAC Mainland branches had peaked in mid-1932, but was declining immediately thereafter. The Chinese petitions were even wider off the mark as regards HSBC, whose circulation volume on the mainland declined some time after 1927, and whose managers had by then become insecure about their future prospects on the Mainland, and reluctant to engage in massive silver trafficking for fears of antagonising the Chinese and British authorities.

What underlay this insecurity was incipient recognition within the Bank that Chinese central banking was making impressive headway, thereby challenging the legitimacy of the foreign banks’ longstanding treaty-port privileges. W.C. Cassels indicated in a letter to O.J.

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108 On the linkage between the outflow of silver and Chinese alarm at the continued prevalence of quasi-foreign banknotes – see Mao Chih-Li (1996), pp. 444-447.

109 See *China Press* article, dated 28 February 1935, clipped in HSBC GA SHG 52.1.; a similar story was published by the Chinese-language daily *Shehui wanbao* 社會晚報 on 22 February 1935, and translated into English for executive perusal. In HSBC GA SHG 52.1; see also article in the February 25 issue of *Shen bao* (1935, p. 7), which suggested that extra-territoriality in the treaty-ports enabled foreigners to smuggle out silver from China, thus exacerbating the monetary crisis and the precarious state of Chinese bank note reserves. Nonetheless, *Shen bao*’s anonymous reporter conceded that quasi-foreign money volumes began decreasing right after *Wusa*, 1925.
Barnes, Manager of the London office, that the reserves held by Chinese banks against their note issue were on the whole more solid than in the past. In some cases the reserves "...appeared to be up to the legal figure of 60% cash, while in others it was as low as 20%." Although this uneven percentage was deemed "unsatisfactory", the tenor of the letter bespoke an appreciation of the fact that Chinese note reserves were regularly supervised by the Chinese Ministry of Finance.\textsuperscript{110}

But perhaps the most important factor that informed the Bank's downbeat prognosis of its Mainland business was the fact that the shift in Whitehall's thinking toward China and the GMD, at the expense of her expatriates in the region, was becoming all too apparent. On 14 January 1935, Grayburn informed Henchman from Hong Kong that he was identifying signs of distrust toward the Bank in the Treasury.\textsuperscript{111}

One of the questions that set the two parties on a collision course was how to deal with China's monetary reform momentum. Throughout the early 1930s, Charles Addis, the Bank's quintessential 'Old China Hand', was working behind the scenes in London to revive the international bank Consortium, and to float a loan on the order of GBP 20 million to remedy China's depleting money stock. In the Treasury's eyes, these manoeuvres encapsulated the Bank's bias against the Nationalist regime, not least because the foreign bank medicine that Addis persistently prescribed had long since been anathema to the Chinese.\textsuperscript{112}

By July 1935, differences between the Treasury and the British banks slid into full-blown conflict, as Grayburn reported to Henchman that the Chinese government was whispering in the ears of Whitehall officials that the foreign banks were to blame for the shortage of cash in Shanghai, although he personally believed that only Japanese banks were seriously

\textsuperscript{110} Cassels to Barnes, dated 6 February 1935, in HSBC GA SHG 52.1.
\textsuperscript{111} Grayburn to Henchman, dated 14 January 1935, in HSBC GA GHO 13.10.
\textsuperscript{112} On Addis and the Consortium – see Dayer (1988), pp. 274-288; Addis' espousal of the International Consortium and Japanese bank participation was blatantly inconsistent with his otherwise anti-Japanese stance on Manchuria. The Foreign Office accused him of senility, and he was subsequently removed by from his influential position in the Bank's London office; over the Nanjing Decade, the GMD government refrained almost completely from borrowing money through foreign banks to the detriment of the Consortium and HSBC in particular. See Pauw (1950), pp. 332-333, 336; cf. the History, vol. III, pp. 392-393; Bergère (1986), pp. 264-266.
implicated in silver contraband. Grayburn’s anxiety at a burgeoning rift with the Chinese and Whitehall were profoundly compounded by signs that HSBC’s HK$ note circulation figures were dropping on reports that the Colony might emulate the rumoured Chinese plan to reduce the silver contents of its currency.

1935 was a year of tense anticipation, at the end of which a deus ex machina for China’s monetary crisis loomed large. The proclamation of the much-awaited fabi reform in November saw the Chinese government offering its nationalised silver stock for sale in America — including silver that was yet to be advanced by foreign banks — in return for US dollars. The reform firmly put China’s economy on a managed paper currency basis, thereby ending almost 90 years during which British and Chinese private banks issued notes on Chinese soil at will.

Thus, on 5 November 1935, the North-China Daily News could recount with much fanfare that “...the decree of the Chinese government [regarding] the new currency policy and the decision to stabilise the dollar went into force yesterday and [were] generally well received”. The reform was affirmed concomitantly by the British Ambassador to China, Sir Alexander Cadogan, a move that dealt the ultimate blow to the convertibility of British banknotes; Cadogan issued a special regulation under the China Order-in-Council 1925, which effectively prohibited payments in silver by British individuals or institutions, and set out penalties for offenders. But he was not acting on his own authority — the Chinese government now had the full support of its British counterpart, with the latter having despatched a special Mission to the region to lay the groundwork for future monetary arrangements between the two countries.

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113 Grayburn to Henchman, dated 3 July 1935, in HSBC GA GHO 13.10; Grayburn’s view suggests that he was largely oblivious of the accusations that E.J. Davies levelled at CBIAC in November 1934 with respect to silver smuggling (see Footnote 107 above).

114 Grayburn to Henchman, dated 19 August 1935, in HSBC GA GHO 13.10

115 On this and other aspects of the fabi reform — see Zhonghua minguo huobi shi ziliao (1989), vol. II, pp. 240-263; the initial amount of silver pledged for sale in the US was 100 million ounce.

116 See North-China Daily News article, dated 5 November 1935, clipped in HSBC GA SHG 52.2
Curiously enough, the initial success of the *fabri* reform has become almost synonymous in much of the pertinent literature in the West with the Leith-Ross Mission to China, conducted between 21 September 1935 and 23 June 1936.\textsuperscript{117} As the following passages will demonstrate, Sir Frederick Leith-Ross was instrumental in pulling the British government, diplomatic corps and Eastern Exchange Banks behind the reform. However, the archival material presented here will clearly show that it was the Chinese government, not Leith-Ross, who devised the particulars of the reform, and determined its timing without pecuniary assistance from the British and *in the face of* British bank recalcitrance. The true historic significance of the Mission has thus been missed by a number of scholars.\textsuperscript{118} Rather than credit Leith-Ross with single-handedly rescuing China from a monetary nemesis, or with inducting it into the new sterling zone, his Mission should be understood as the preface of a new British policy in East Asia aimed at containing Japan, as well as at sending a chilling wake-up call for British businessmen in China.

The second outcome, in particular, is not self-evident. Far from anticipating rebuke, the British business lobby in China had initially been one of the most vocal driving forces behind the launch of the Mission; the outcome of the Mission cannot be adequately understood without first considering the impetus which led to its formation, and the way in which its objectives were conceived of on the eve of Leith-Ross’s arrival in the region.

By the early 1930s, British businesses in China had felt less threatened by GMD ideology. They became, on the other hand, increasingly uneasy about Japanese ambition for commercial dominance in the region. These sentiments came to the boil in early 1935, upping the ante for a Whitehall intervention. In a confidential memorandum dated March 15, for example, one of the most stalwart ‘China Hands’, W.J. Keswick of Jardine Matheson & Co., was quoted as warning Bank of England officials:

\textsuperscript{117} For background details on the Mission – see Leith-Ross (1968), pp. 195-227. In this autobiography, Leith-Ross himself did not go so far as claiming the credit for devising the reform.

\textsuperscript{118} For accounts which tend to play down the Chinese role in the *fabri* reform – see, in particular, Cain and Hopkins (1993), pp. 251-259. Cain and Hopkins erroneously stated that the reform had been “devised” by Frederick Leith-Ross in an attempt to draw China into the sterling zone. A similar approach is advanced by Dayer (1988), pp. 292-296; firsthand accounts which frame Leith-Ross’s contribution to the reform as auxiliary include Young (1971), pp. 230-233; Trotter (1975), pp. 148-167; Endicott (1973-4), pp. 488-490; for criticism of Cain and Hopkins – see, e.g., Akita (1995), pp. 10-18.
...[Keswick] is much disturbed at the aggressive attitude of Japan, and is satisfied that if the British Government does not very soon announce firmly its intention of remaining in China and take steps to strengthen the British position and representation out there, Japan will in the near future dominate China and make it impossible for British people to trade there effectively...otherwise, although they are the biggest British firm in China...[Jardine Matheson & Co.] have made up their minds to leave the country.\textsuperscript{119}

However, opinions in Whitehall and the Bank of England were strictly averse to open confrontation with Japan for the most part. Rather, British policymakers favoured a subtler gambit that would allow Britain to safeguard its China markets through courting better relations with the GMD, coupled with a willingness to cede more extra-territorial privileges.\textsuperscript{120} Ironically, the Foreign Office had exuded more suspicion of Japanese intentions than either the Bank of England or the Treasury, but found fault with Leith-Ross as soon as the Mission had been at work, for unduly provoking Tokyo’s sensitivities.\textsuperscript{121}

As indicated above, the decision to despatch Leith-Ross to the region had to do in the first instance with mercantile concerns. However, the timing of the despatch equally reflected concerns about US foreign policy. In the course of 1934-5, Kong Xiangxi, the Chinese Finance Minister, was thought to be playing the Japan, the US and Britain against one another, as part of Chinese attempts to goad either one of the two Transatlantic Powers into granting China a large loan. Reports from the British Consulate in Shanghai warned the Foreign Office, as early as 18 December 1934, that despite declarations to the contrary, Kong needed funds urgently in order to support a new fiat currency.\textsuperscript{122} At the same time, Kong warned the British that if the Bank of England was not to facilitate a sterling loan to

\begin{itemize}
  \item \textsuperscript{119} Confidential Memorandum, dated 13 March 1935, in the Bank of England Archives [hereafter BoE] G1/298.
  \item \textsuperscript{120} Osterhammel (1984), pp. 261-263, 277-279.
  \item \textsuperscript{121} Medlicott (1981); see also article entitled ‘Sir F. Leith-Ross Criticised’ in the \textit{Times}, 26 November 1935, p. 13.
  \item \textsuperscript{122} See, for example, A.H. George, Commercial Counsellor for the British Consulate in Shanghai, to Sir Alexander Cadogan Head of the British Legation in Beijing, dated 18 December 1934, in PRO FO 371/19239, ff. 3-12.
\end{itemize}
the Chinese government in London’s capital market, it risked seeing the Communists taking over the country and reneging on all foreign debts.\textsuperscript{123}

But the British government was finally convinced of the seriousness of this Chinese demarche, and was subsequently roused to action, only after its ambassador to Washington reported that sources in the State Department had told him that Nanjing was putting the final touches on a monetary plan of unprecedented magnitude. His coded telegram to the Foreign Office read:

Some weeks ago the Department of State received from Chinese Minister at Washington the text of a message from Chinese Minister of Finance, containing the outline of a plan with regard to silver in which [it] was suggested that, in view of what China considered necessity of abandoning present silver basis and adopting a new currency system involving use of both silver and gold, the United States [will] extend to China a substantial loan in addition [to] a substantial credit.

The Department made a reply that [the] American government did not deem it practicable for [the] United States to embark upon such an undertaking...\textsuperscript{124}

It was the ‘cold shoulder’ Washington had initially lent the Chinese in early 1935 that made hands-on British involvement all the more sensible.\textsuperscript{125} As an overture, Whitehall suggested to the Chinese government that it send a high-ranking envoy in the image of Leith-Ross to study Chinese proposals for British government loan. From mid-1935 and until Leith-Ross arrival in Shanghai on 21 September 1935, Whitehall launched a concomitant diplomatic foray to cement international backing for China to join the newly-established sterling zone.\textsuperscript{126}

\textsuperscript{123} Ibid.


In a secret British Treasury memorandum issued on 19 October, the principal objectives of the Mission were formally described as 1. to help stabilise a new Chinese currency with a loan from the “four Consortium Powers”, i.e. Britain, France, Japan and the US.; 2. to prod the US to barter gold reserves for the Chinese silver stock despite signs of objection in Washington to the pegging of the Chinese currency to the sterling; 3. to appease Japanese suspicion of British involvement in currency reform; 4. to consolidate debts incurred by successive Chinese governments; 5. to ensure that, in return for British assistance, the GMD government appoint a British advisor to the Chinese Central Bank, and that the Chinese Maritime Customs continue to be presided over by a British national.\textsuperscript{127}

Ultimately, none of these ambitious objectives was to be fulfilled as planned. Over the next tumultuous decade China’s currency never joined the sterling zone. Moreover, it is doubtful whether a sterling peg was ever seen as strategically compelling in British Treasury and Bank of England deliberations. As early as 27 October 1935, Leith-Ross cautioned, for example, that pegging China’s currency to sterling would compromise Britain’s relations with Japan, and suggested that from British perspective the main purpose of any currency reform should be to promote British trade in China and settle debt defaults.\textsuperscript{128}

From then on, and largely due to the views that Leith-Ross formed, the role of the Eastern Exchange Banks in Anglo-Chinese relations loomed increasingly large in backroom Whitehall deliberations. The Mission’s unexpected thrust became evident to HSBC about a month after Leith-Ross arrived in China. On 22 October 1935, Henchman wrote to Grayburn from Shanghai that Leith-Ross had summoned him to say that “...he gathered the HSBC was not popular with the Chinese Government”, because of allegations that the Bank had been involved in silver contraband.\textsuperscript{129} The same sentiment resonated a few days earlier from a telegram, marked “strictly private”, that the Hong Kong government sent to the Colonial Office, and where Leith-Ross was quoted as saying:

You should know that Hong Kong and Shanghai Bank is regarded with considerable mistrust by Chinese. It is considered in Chinese Government circles that [Foreign] Banks have deliberately accentuated Chinese difficulties by pursuing excessive deflation

\textsuperscript{127} See ‘Note of a Meeting Held at the Treasury’, dated 19 October 1935, in BoE OV 104/63.

\textsuperscript{128} See ciphered telegram from Leith-Ross to the Foreign Office, dated 27 October 1935, in BoE OV 104/63.

\textsuperscript{129} Henchman to Grayburn, dated 22 October 1935, in HSBC GA K1.13.
policy and by unnecessarily exporting silver in order to escape possible [Chinese Government] embargo. It is stated that they so denuded themselves of silver here that they were obliged to borrow from [the New York-based] Chase to meet engagements. Further, they are regarded in Chinese banking circles as obstructive in their attitude both to [the formation of a Chinese] Central Bank and to institution of clearing. It is recognised that in recent management of exchange they have been most helpful but it is still feared that they cannot be relied upon to support [the] new [fab] scheme even if they do not work for its breakdown.130

A ciphered telegram from Leith-Ross in Shanghai to the Treasury, dated 1 November 1935, suggests that the timing of the Chinese decision to move off silver caught him by surprise, but a request from Song Ziwen for his assistance in persuading the British banks to hand over silver did not.131 Immediately after his meeting with Song, Leith-Ross communicated the Chinese government intention to Henchman and Cockfarn, respective Shanghai branch managers of the HSBC and CBIAC. Alarmed, the two bankers asked that a British government Order-in-Council be promptly issued to absolve them from silver to depositors in light of the Chinese plan to nationalise silver. Leith-Ross acceded, but insisted that British bank silver be handed over to the Chinese, to which Cockfarn agreed. However, Henchman “...wished to exclude silver held against his own notes and to continue payment of silver against these notes. His object is to maintain the prestige of Hongkong and Shanghai bank notes (with Hongkong situation in mind) but of course any prestige they obtain involves prejudice to the Chinese notes.”132

Despite Leith-Ross’s facilitation of the desired Order-in-Council, HSBC held off the handover of silver. A month later, Henchman reported that it was the Governor of the Bank of England, Montague Norman, who was behind Leith-Ross’s firm line against the Bank,

130 Hong Kong Government to Colonial Office, dated 15 October 1935, in BoE OV 104/63.
131 Ciphered telegram from Leith-Ross in Shanghai to the Foreign Office, dated 1 November 1935, in BoE OV 104/63.
132 Leith-Ross from Shanghai to the Foreign Office, dated 2 November 1935, in BoE OV 104/63; see also telegram from A. Cadogan, the British Consul-General in Shanghai, to the Foreign Office, dated 3 November 1935, in BoE OV 104/63. Cadogan supported Leith-Ross’s suggestion that an Order-in-Council be issued to protect British banks from silver claims in return for the latter’s handover of silver to the Chinese government.
and that the two devised a line “very little different from an ultimatum” to force HSBC to accommodate the fabi reform, by handing in all the silver in its possession in China to Chinese state banks, “or face the consequences”.133

Hitherto, a voluntarily handover of silver to the Chinese authorities would have been unthinkable — it meant in effect the surrender of much of the Bank’s independence in China’s monetary realm, and by implication, of its ability to issue local money to back up its exchange operations. Leith-Ross’s demand was so far-reaching that Henchman concluded that the Mission had been designed for the benefit of the Chinese government, while the interests of the British banks and the expatriate community were in its “also ran” department.

Leith-Ross opposed Henchman’s request to exempt HSBC’s issue reserve from handover to the Chinese government because he feared it might be shipped out of China rather than be used to cash client liabilities. His colleagues at the Treasury conveyed these concerns when they wrote that “...none of the foreign banks could afford to pay their deposits in silver”, and that foreign banks “…in principle should receive the same treatment as native banks except in so far as their silver reserves are not held against liabilities expressed in Chinese currency [emphasis in the original]...It would be unfair and a source of grievance to the Chinese if foreign banks obtained a windfall profit on silver held against Chinese liabilities.”134

This passage not only suggested that the British Treasury believed quasi-foreign money had principally been held by Chinese bearers, but it also alluded to a widespread breach of confidence in foreign bank conduct: in compliance with Chinese requests, British banks disbursed Chinese bank notes rather than silver from as early as April 1935; some banks, however, abused this ‘gentlemanly agreement’ with the Chinese government to spirit away mandatory silver reserves overseas.135

133 Henchman to Grayburn, dated 23 November 1935, in HSBC GA K1.13. In this letter, Henchman opined that HSBC ought to have sought compensation for complying with silver nationalisation, and that the only plausible compensation could be Chinese government intervention to force a pay-off of outstanding debts to the Bank; see also Bank of China telegram, dated 4 November 1935, demanding that HSBC immediately hand over its silver in return for fabi notes – in HSBC GA K1.14.

134 Memorandum entitled ‘Silver Reserves’, dated 5 November 1935 in BoE 104/63.

135 For a reference to this ‘gentlemanly agreement’ – see ciphered telegram from Leith-Ross to the Foreign Office, dated 2 November 1935, in BoE OV 104/63.
The hard line, which Leith-Ross helped forge vis-à-vis the British banks, echoed a wider sea change in Whitehall. Hitherto, HSBC traditionally enjoyed good relations with British officialdom. As late as 1932, the Bank of England protected HSBC's position as de facto central bank in Greater China by refusing a request from Song Ziwen, then Chinese Finance Minister, to nominate Lloyds Bank as conduit for inter-governmental payment. A Bank of England official gave away the reason for the refusal in these terms: "...the Hong Kong and Shanghai Bank [sic] are at present our bankers in London, and we naturally do not want to take action which is contrary to their interests."136

By late 1935, the Bank's senior management in London was beginning to receive very different messages. On November 5, for example, O.J. Barnes wrote to Henchman from London that the Treasury had intimated to him its position that all British banks in China should support the proposals put forth by the Chinese government and "...hand in their stocks of silver against new currency notes".137 Such was the Treasury's adamancy that the smaller banks — CBIAC and MBI — indicated as early as November 1 that they were likely to comply with the _fabi_ reform, provided that all other foreign banks followed suit and that an Order-in-Council be issued in Shanghai to exempt them of paying silver over the counter to liability-holders.138

HSBC did not cave in to the pressure applied by the Treasury so easily. Henchman wrote to Grayburn on November 11 — only twelve days before the Treasury's 'ultimatum' was to expire — that he was trying to enlist Song Ziwen to mediate between the Bank and Kong Xiangxi, the incumbent Finance Minister, so that the latter would be forced to vouch for non-performing Chinese debts in return for a smooth silver handover. If Kong was not to offer any concessions, Henchman indicated that he was prepared to mobilise the non-British foreign banks to obstruct the reform.139

But a month later, the Bank already had to stage a climb-down from its earlier demands, largely because the first month of the _fabi_ reform was hailed a success even without its compliance. On December 10, Henchman expressed his disenchantment with the Mission's objectives in a letter he wrote to Grayburn, but was now forced to concede that the Chinese

136 Blackley (?) to Rodd, dated 7 September 1932, in BoE OV 104/53.
137 Barnes to Henchman, dated 5 November 1935, in HSBC GA K1.13.
138 See copy of a statement to that effect by CBIAC and MBI, dated 1 November 1935, in HSBC GA K1.13.
139 Henchman to Grayburn, dated 13 November 35, in HSBC GA K1.13.
government possessed sufficient silver "to play with", and that this effectively dashed the Bank's hopes of clinching preferential terms for the handover of silver, and of securing a role in future Chinese government loan floatation in London.\footnote{Henchman to Grayburn, dated 10 December 1935, in HSBC GA K1.13. Henchman was also embittered about the distance the Mission kept from British bankers: "...I don't suppose my opinion will be sought, and if so, very little notice will be taken of it..."} It was only on 16 January 1936 that Sir A. Cadogan, now British Ambassador to Nanjing, could report back to the Foreign Office that due to the Mission's work the "[s]urrender of [British bank] silver has been arranged...".\footnote{A. Cadogan to the Foreign Office, dated 16 January 1936, in BoE OV 104/63.}

That Whitehall was not, however, attuned to the direction of Chinese policy is evidenced by a note Leith-Ross sent Neville Chamberlain on 31 July 1935 — only three month before the \textit{fabi} currency was promulgated. In this note, he envisioned a broad international loan Consortium, including the Japanese, that would help support China's new legal tender in return for the latter's recognition of the Japanese occupation of Manchuria.\footnote{See enclosure in a letter from Leith-Ross to Sir R.Vansittart of the Treasury, dated 31 July 31 1935, in PROF 5081/6/10. This document is reproduced in \textit{Documents on British Foreign Policy} [1981], Second Series, vol. 20, pp. 568-571.} Once the Mission got underway, attempts at reconciling the GMD government, Japanese territorial ambitions and British commercial concerns through holding out the prospect of an international loan proved futile.


Nonetheless, it would be a mistake to assume that the Chinese saw Leith-Ross as privy to the minutiae of the reform. In fact, the correspondence clearly shows that Kong Xiangxi
and Song Ziwen pressed ahead with the reform despite impassioned pleas from Leith-Ross
to defer until a British loan agreement was achieved. Instead, Kong and Song were working
out an alternative agreement with the US government to sell Chinese nationalised silver
reserves via New York in return for American hard currency to support the fabi. Extant
records suggest that, if anything, the Mission played a minor role in securing American
cooperation. In fact, the negotiations between Washington and Nanjing were kept under
tight wraps over the course of October-November 1935, not least because the US was
suspicious of Britain’s intentions. From that moment and until 1949, Britain was to play
second fiddle to the Americans when it came to supporting GMD government finances.

In the meantime, the initial success of the fabi reform paved the way for a swift
demonetisation of silver in Hong Kong too. Such a radical reform in the Colony could
have, of course, much wider implications for the Bank’s status as the semi-official British
bank in the region, because the lion’s share of its notes had been issued from Head Office
and it was there that it kept most of its reserves. Once the Treasury instructed Hong Kong’s
government to opt out from the silver standard in favour of a sterling-backed fiat currency,
the fiduciary element and profit potential in the three Exchange banks’ note issue became
null and void. But since the Colony’s government was not prepared to issue its own notes, a
new formula had to be found for the continuation of the private bank issue, whereby the
Hong Kong government would bear some of the administrative and printing costs involved.

In the process of negotiating a new arrangement with the Treasury and the Colony’s
government, HSBC quite naturally tried to overstate the costs it would have to shoulder if
the private issue was to remain in effect. In a letter to the Treasury’s Norman Young dated
in early 1936, Grayburn maintained that material and administrative costs of issuing HK$
1,000,000 amounted to no less than HK$115,000 annually, or 11.5% of the notes’ face
value. It stands to reason that the ratio of production costs to face value was not critically
different for HK$ notes than the ratio calculated for Shanghai dollar notes presented in
Table 5.4 above, since the same print technology and safety precautions were used in both

146 See Memorandum dated 24 Dec 1935 in BoE OV 104/63; cf. Foreign Relations of the United States:
147 Grayburn to Young, dated 9 January and 12 March 1936, in HSBC GA F1.1. Grayburn’s costing included
“...printing, signing, cancelling of notes and other expenses”. It was exclusive, however, of the annual 1%
duty, which the Hong Kong government imposed on circulation volumes.
cases. The Shanghai ratio of production costs to face value (1.65%), was compounded by a 1% government tax imposed on local circulation volumes by the Colony’s government. The resultant total (2.65%) is however conspicuously smaller than the one Grayburn advanced (11.5%), even when allowing for a miscellany of unaccounted expenses.

Either way, while intensive negotiations between the Bank, Treasury and the Colony’s government over the future of the private issue in Hong Kong were moving ahead, the stand-off between the Bank and the Chinese government remained unresolved. So much so, that on 1 January 1936 Leith-Ross sent the Bank a stern warning from his suite at the Cathay Hotel on the Bund. The warning was addressed to Henchman, the Bank’s local branch manager, advising him that further delays in the handover of silver to the Chinese government would have grave consequences, especially in view of the fact that most other foreign banks — except the Japanese ones — had already endorsed these requisites.148

The determination and consistency that Leith-Ross demonstrated, seemingly on behalf of a foreign government, in bringing the Bank to heel nonplussed Head Office. On 14 May 1936, Grayburn divulged his growing concerns over the Mission. In a letter he wrote to A.C. Leith, the Acting Manager in Shanghai, who was temporarily replacing Henchman at the helm, Grayburn confided that he thought Sir Frederick Leith-Ross would probably prefer to see British banks in China “vanish” altogether, and that he was indifferent to their pleas to recover Chinese debts in return for a smooth handover of silver.149

Leith-Ross, on his part, was not easily shaken by the litany of British expatriate rebuke. In addition to Bank of England and Treasury backing, he had some segments of the Foreign Office by his side. Wielding the clout and moral authority of a knighted professional, he was one of select few in Whitehall who could challenge the Bank’s China expertise and force it to renounce its silver reserves by mid-1936. Upon the conclusion of his Mission, the Chicago Daily News described Leith-Ross as “…one of the leading members of that remarkable caste, whose job is to take the long-term, non-partisan view of British interests — the British Civil Service.”150

In retrospect, it may well be argued that the Mission was the apex of a tectonic shift in British foreign policy toward East Asia, which had begun a decade earlier, whereby Britain

gradually relinquished its hold on the Chinese treaty-ports so that it could woo the GMD back into the Western fold and contain Soviet and Japanese influence in the region. Leith-Ross was usually low key in his public pronouncements, so as not to antagonise those who could pre-empt those foreign policy objectives, be they Japanese diplomats in China, expatriate British bankers or hostile GMD officials. Nonetheless, a confidential Treasury memorandum, compiled from Leith-Ross’s notes for limited circulation within Whitehall ministries by one of his confidantes, divulged much of what he thought about Britain’s role in the region. To borrow a Japanese popular term, this memorandum summed up Leith-Ross’s *honne*, or all the thing he wanted to say about some of his compatriots but could not afford to:

In his note on British trade, Sir Frederick severely criticises merchants, banks, the Purchasing Commission in London, The Exports Credits Guarantee Department, The Embassy and the Consular Service. Up to quite recent times the British merchants in China have had a sheltered and artificial existence. The Treaties and the timidity of the Chinese placed them in a privileged position in which by trading through a comprador they made easy profits without much effort or risk. In effect, the comprador, traded under the protection of the foreign merchants, and the more the latter [*sic*], with the help of the Consul and the gunboat, asserted his privileges and rode rough-shod over Chinese rights and aspirations, the better for his business [*sic*]. The pent-up resentment of the Chinese exploded in 1925. They had been taught by the Russians not to agitate against all foreigners at once, but to concentrate their hate on the British, who were the chief upholders of the unequal treaties and the gunboat policy. An eighteen-month boycott of British trade came as a rude shock and initiated a new era in Anglo-Chinese relations.

...[T]he British merchant found it very difficult to adapt himself to the new conditions especially as world economic causes had reduced his trade to a fraction of its former volume...[He] lacks with few exceptions the suppleness and patience necessary to make friendly contacts with Chinese business men [*sic*] or to deal with the exasperating difficulties of Chinese bureaucracy.
...[T]he British merchant in China instead of seeking friendly contacts and cooperation with the Chinese still trade through a comprador and spend their time complaining of lack of support form the British government...to whose 'weak policy' they affect to attribute all the ill that have befallen them...[although it was this policy that] really saved what was left of British interest in China from annihilation.

...As regards the [British] Banks, evidence has been accumulating for some time that the present direction of the Hong Kong and Shanghai Bank is both narrow minded and short sighted. Here again the problems of the Bank (whose Head Office is in Hong Kong, not London) are affected to quite extra-ordinary degree by political considerations in regard to which the managers both in Shanghai and in Hong Kong are quite incapable of forming a sound judgement [by insisting on the an international Consortium loan which aims to]... to bring China to heel. 151

Another secret memorandum where Leith-Ross expressed himself in the first person was circulated in Whitehall five days later. Though generally much more subdued in tenor, the second memorandum elaborated on some of the thornier issues raised in the previous memorandum:

The British merchants as a whole are reluctant to co-operate with Chinese firms and maintain less close and friendly contacts than merchants of other nationality. One British merchant told me that he had never received a Chinese in his house, and never would, and he believed that it was unsound policy to cultivate Chinese connections. Such firms leave the entire management of their Chinese business in the hands of their compradors, who undertake the responsibility for all deals with Chinese customers. The comprador system is perhaps inevitable but it increases the overheads of the firms concerned, as compared with German firms who do their business direct.

... The Hong Kong Bank has hitherto made its profits out of exchange business and in most cases its managers appear to have no experience

of, and little interest in, anything but exchange business. With the stabilization of the Chinese exchange, the profits to be obtained from such business will be greatly reduced, and the Bank will only be able to maintain its position in China by turning its attention to financing business instead of concentrating on exchange, co-operation with the Chinese is essential to the promotion of business in China. The Hong Kong Bank has not much goodwill in this matter. The Bank did assist in the management of the exchange during 1935 and the Chinese government recognised the assistance thus given very generously. But after the [fabr] reform was instituted, the Bank for two months opposed the surrender of its silver to the Chinese government, and for some time refused to enter into a clearing system with the central bank.152

Leith-Ross was careful to veil acerbic portions of his criticisms when engaging with HSBC stalwarts directly. On 8 April 1936, for example, Leith-Roth wrote a letter to enlist Charles Addis, the Bank’s Chairman in London, to his cause. In this letter, Leith-Ross tempered his satisfaction at the “astonishing speed” with which the fabi reform achieved price stability, with an admission that its ultimate success would depend on international good will. To that end, he pleaded with Addis to exert influence in the City to propitiate public opinion of China’s progress, and allay the concerns of Chinese government bondholders. Addis, on his part, indicated that he would oblige.153

How, then, are students of the period to account for Leith-Ross’s backroom criticisms of HSBC? Tellingly, Leith-Ross crowned 1925 as the year in which Sino-British relations changed course, in unmistakeable reference to the Wusao boycotts and subsequent GMD state-building efforts. London’s view of the logic, affordability and morality of defending the treaty-port paradigm changed immediately afterwards. One of most succinct pronouncements that capture this metropolitan sea change was perhaps Lloyd George’s, “Chinese nationalism is essentially a just cause”.154 In contrast, most British expatriates continued to harbour animosity toward the GMD and to live under the illusion of perpetual


154 Lloyd George (1927), p. 10.
insularity and colonial grandeur. London observers came to sardonically label such attitudes as ‘The Shanghai Mind’.

Leith-Ross had had no substantive China experience before he arrived in the region, and was therefore aligned with neither ‘Old China Hands’ nor trading house taipans. He seems to have primarily transmitted the winds of change blowing in London. It is otherwise difficult to determine how personal chemistry between Leith-Ross and his hosts played out over the course of the Mission. Nevertheless, Cyril Rogers, who was Leith-Ross’s closest aide, did not conceal how Chinese parleys had won him over:

You must not smile if I confess that I have lost my heart to the Chinese. National characteristics as a rule do not lead me to enthusiasm. But the Chinese is so like a child (and therefore to be loved), so patient and full of good humour; so pathetic and yet very comic, that it is impossible not to like him. Of course in other (and higher) places the best is not seen. A gangster undercurrent exists here, in the best of Chicago tradition. Corruption acquires the garb of virtue because of its unavoidable necessity and everywhere one finds the foundations rotten. But even this attracts me. I get quite a lot quiet satisfaction out of trying to understand the Chinese psychology and playing the “oriental game” for which there are no rules except that a smile must accompany everything and all must be genteel. But why do I tell you all this? You must have heard it all before...

Leith-Ross exuded optimism upon his departure in June 1936. This optimism had been predicated on the first few months in which China’s new legal tender was taking root —

155 Ransome (1927), 28-32; cf. Appendix 2.3.
156 Rogers to Stepmann, the British Consul-General in Shanghai, dated 11 November 1935, in BoE OV 104/53.
157 See, for example, China Press article entitled “Leith-Ross Optimistic about China in Farewell Interview”, dated 24 June 1936, in HSBC GA SHG 52.2; Leith-Ross continued to sound upbeat pronouncements on the fabi reform achievements overseas. The China Press reported on 2 December 1936, that the eminent economist had told a group of leading City bankers in London that the success “...with which managed paper currency was working in china...recalled [that] paper currency circulated throughout the country in the time of Kublai Khan”.
arguably one of the most salient achievements of the Nanjing decade. Nonetheless, the Japanese invasion of the China proper (1937) and voracious demands subsequently put on the state treasury by Jiang Jieshi’s generals, meant that the success of the fabi reform would not be an enduring one.

The hyperinflation that gripped China during 1937-1949 has been described at length elsewhere, and there is no pressing need to retell its effects in these pages. The Guomindang’s recourse to inflationary policy may have been an historic inevitability in view of the onset of the Pacific War. Even so, some of the achievements of the fabi reform were irreversible: foreign banks had been reduced to a fraction of their former might in Shanghai, quasi-foreign banknotes were quickly disappearing from sight, and the international banking Consortium which had once dictated loan terms to the Chinese was pronounced “dead”.

The ravages of the second Sino-Japanese war eventually turned the fabi currency into worthless paper. Yet, the Sino-Japanese hostilities spared the foreign concessions in Shanghai between 1937-1941 — a period during which the concession areas became known in Chinese as gudao 孤岛 or ‘Solitary Haven’. For a little while, the British banks could toy with the idea that hyperinflation would legitimise a renewed attempt to issue their notes and minimise their dependence on GMD-run banks. The British Treasury, however, promptly dashed any such hopes. Moreover, all Western banks were now firmly committed to stop accepting deposits from Chinese nationals.

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158 See in particular Chou Shun-hsin (1963); Chang Kia-ngau (1958); Young (1971).

159 On 17 March 1937, for example, Henchman reported to Grayburn that Jiang Jieshi was resorting to provincial banknote issuance and subsidiary coin debasement as means to increase government revenue, thereby sacrificing the monetary stability that the fabi reform had achieved. In HSBC GA K1.15.

160 On 15 April 1937, Grayburn wrote to Barnes that the International Consortium was an ineffectual entity because of insfighting among its constituent Powers. Grayburn then exclaimed “...I will be quite glad to see [the Consortium] dead and buried, and I cannot see the good of a partnership where the partners do not keep to the rules... ”. In HSBC GA K1.15.; on British Foreign Office opposition to the Consortium – see Dayer (1988), pp. 303-306.

161 On 7 October 1937, R.E.N. Padfield, Co-Manager of HSBC’s London Office, wrote to Grayburn that the Treasury was not inclined to accept pleas from CBIAC, MBI and the P&O banking Corp. to allow British banks to reissue notes in war-ravaged Shanghai. In HSBC K1.15.

Ironically, the fact that the Bank’s latitude on the Mainland was constricted more than ever before turned HSBC, as from 1937, into one of the key advocates for the need to invigorate Chinese central banking. This was largely because the Bank was now totally dependent on Chinese currency for its remaining operations in Shanghai, and because it became a major underwriter for the GMD government in the London capital market, after more than a decade of mutual suspicion over the aims of the Consortium.

By late 1938, the Bank’s relations with the Nationalist government had come a full circle. While they took power on the back of popular abhorrence of the Consortium and foreign treaty-port privileges, the Nationalists were now actively soliciting a loan on the order of GBP 5 million from HSBC for “currency stabilisation”, albeit without any Consortium involvement. This convergence of interests notwithstanding, extant branch ledgers suggest that the China issue was well and truly on the road to oblivion by the early 1940s. After Japan’s surrender in 1946, the GMD continued to narrow down the foreign banks’ operational latitude, even though it was heavily embroiled in civil war with the Communists. With the last powers of extra-territoriality finally ceded in 1942, HSBC was forced to submit to the Ministry of Finance data on branch balance sheets on a daily basis — a degree of subordination to ‘native’ authority that would have been considered unthinkable before 1925.

Along with other business ends, HSBC circulation figures in Shanghai became moribund. On August 1947, the branch reported to Nanjing of 281,521 fabi worth of old silver dollar notes that had not been withdrawn yet, while overdrawn current accounts and non-performing loans reached a whopping fabi 67.3 billion. Clearly, the branch had by then become a deadweight for Head Office, and its days of glory were long gone.

But the worst was yet to come. The dire straits in which British businessmen found themselves after the Communist takeover of Shanghai in 1949 were the subject of several monographs; during the early 1950s Communist comptrollers placed HSBC notes

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163 Barnes to Grayburn, dated 31 October 1938, in K 1-16.
164 See ledgers in HSBC GA SHG LEDG 1220.
outstanding, like all other pre-War liabilities, under sedulous scrutiny. Their underlying strategy was to force Head Office to remit to the authorities as much foreign currency as possible in return for the release of the Bank’s Mainland staff, who had been effectively quarantined.\textsuperscript{167}

In December 1954, the Bank’s China circulation total was nominally made up of 336,176 demonetised, old silver dollars. The amount reflected hoarded notes that were never presented for encashment and whose bearers’ whereabouts were unknown, or notes defaced beyond repair in the course of war. Their real value in Renminbi units was infinitesimal.\textsuperscript{168}

5.6 Conclusion

This chapter has examined in detail the vicissitudes of banknote issuance by the Hongkong & Shanghai Banking Corporation during the Republican period. It has demonstrated — much like the finding as regards CBIAC presented in Chapter 3 — that note circulation volumes in Shanghai, and to a lesser extent in the outports, shot up dramatically through the Beiyang government tenure. In mid-1925, however, the China issue took a decisive — and from the Bank’s standpoint — entirely unexpected battering as a result of nationalist agitation during the May Thirtieth and Shaji Incidents. Circulation volumes in Shanghai had rebounded briefly by 1927 but — unlike in the CBIAC case — the China aggregate did not peak in the early 1930s. In fact, HSBC operations in China proper progressively diminished sometime after 1927 as a direct consequence of GMD policies and the rise of modern domestic financial institutions.

As one would expect, the major economic junctures that China had traversed between 1912-1937 featured in this chapter sequentially. So, too, did a number of academic sticking points — particularly in Sections 5.4 and 5.5. These concerned the way in which GMD-HSBC relationship had evolved; here the relationship was portrayed as shifting from festering hostility on the eve of the Nanjing Decade (1926-7) to one of begrudging accommodation after the launch of the US Silver Purchase Policy (1934). Although the appreciation of silver prices in the mid-1930s is shown to have hit China’s economy very badly, the GMD managed to chart a solution course largely by itself. The Bank had almost invariably been privy to government economic policy in the late-Imperial and early-


\textsuperscript{168} See report from HSBC Shanghai branch manager to the Communist government Ta Hwa holding company, dated 20 December 1954, in HSBC GA SH 1 – 49.
Republican eras. Hence, the fabi reform marked a considerable diminution of its standing in China.

Herein lies the significance of HSBC’s China issue during the Republican period; because HSBC was by far the most important foreign bank in China, the highs and lows of its note circulation accurately capture not just its own performance, but also the transition from intensifying monetary fragmentation in the early-Republican period to effective central banking reforms during the Nanjing Decade.
Chapter 6
Conclusion

The following sections will bind together the political, institutional and technological threads emanating from the exposition of British banknote issuance in China. Section 6.1 will begin by spelling out the ways in which circulation volumes presented in this thesis depart from previous estimates; Section 6.2 is aimed at re-assessing the efficacy of anti-foreign boycotts during the Republican era in light of the documentary evidence featured in Chapters 3 and 4. From clearly delimited themes where balance-sheet figures count most, Sections 6.3 and 6.4 will shift to a broader discussion of late-Imperial and Republican China, and of the significance of British overseas banking there. Finally, Section 6.5 will explore whether quasi-foreign banknote issuance — being the aberrant monetary phenomenon that it was — can offer clues as to the determinants of modern economic growth.

6.1 Rethinking Circulation Volumes

Previous estimates of foreign banknote circulation volumes in China were beset a priori by two limitations. First, European overseas banks had been under no obligation to disclose country-specific circulation volumes in their published annual reports. This allowed the British banks, whose banknote issues were truly multinational in nature, to withhold critical information, especially during politically sensitive times. Secondly, most previous estimates did not adequately distinguish between banknotes denominated in colonial currency, which circulated mostly at China’s periphery, to quasi-foreign banknotes, which had played a pivotal role in Shanghai and the major outports.

As a result, most estimates of overseas banknote circulation in China proper reflected little more than guesswork. These estimates were particularly misleading as regards British banks, since they obfuscated how the changing political climate might have impacted on the banks’ performance. Rather, critical shifts in circulation volumes became entirely lost in overarching monetary aggregates spanning dominions, colonies and nominally independent polities across the Asia-Pacific region.

This thesis offered a long-term reconstruction of British note circulation volumes in China that makes allowance for substantial provincial and treaty-port particularities. Archival data gleaned from two leading British banks in East Asia, HSBC and CBIAC, provided the
foundation of the core argument. By disaggregating these banks' HK$-denominated notes, whose spread contemporary observers mostly confined to Guangdong Province, from their SH Tls. and Mexican dollar (Mex$) notes, linkages between the financial and political conditions in pre-war Shanghai were revealed.

The circulation pattern that subsequently emerged was instructive in many ways. It corroborated desultory references made in secondary sources as to the toll, which World War I and, a few years later, anti-foreign agitation had taken on foreign banks in China; equally importantly, the pattern suggested that the breakdown of central authority in China proper after 1911 — accompanied as it was by widespread debasement and overprinting of local currency — provided the single most important catalyst for the spread of quasi-foreign notes, in the face of longstanding Chinese suspicion of fiduciary money.

More indirect findings emerged too. By examining British Treasury regulation and banknote production costs, HSBC’s quasi-foreign note issue was shown to have been remunerative, particularly in the late-Imperial and early Republican eras. Yet, the Bank’s Head Office was generally less enthusiastic about the growth of the China issue than were local branch managers. This was ultimately because of concerns that an unbridled expansion of quasi-foreign note circulation volumes would impinge on HSBC’s role as *de facto* arbiter of Hong Kong’s money supply.

As for the ubiquity of HK$ notes in Guangdong — the findings proved much less conclusive. Since the British banks were not party to border control arrangements between the Colony and China proper, and were unable to record banknote movements to and fro, scholars may never know the exact amount of HK$ actually used on the Mainland over time. Yet, building on balance-sheet figures for the CBIAC branch in Guangzhou (Chapter 3.5), this thesis has shown that, at least insofar as this particular bank is concerned, previous estimates of HK$ circulation volumes in China proper contain a substantial upward bias. More generally, the high demand for notes in the Colony, as opposed to the relatively small volume of quasi-foreign notes, was shown to be the result of an institutional setting that had patently distinguished Hong Kong from the treaty-port mould.

Similar branch data and Inspector’s Reports pointed, nevertheless, to the preponderance of both Shanghai and Hong Kong in the operations of British overseas banks in China. These records resonated with the sheer political and monetary fragmentation that characterised the rest of China. But wide variance in monetary conditions is shown to have existed not only
between Hong Kong, Shanghai and the rural hinterland, or between Shanghai and the
outports in toto, but also between one outport and another. One important example,
discussed in Chapter 5.2, was the fact that Chinese bank notes enjoyed wildly different
degrees of receptivity in different HSBC branches across the Mainland.

6.2 The Efficacy of Chinese Popular Boycotts

This thesis argues that the perception of Chinese boycotts in the early Republican era as
ineffectual in the long-run — entrenched largely through Remer's early work — is in want
of serious revision.\textsuperscript{169} This perception should be measured up, with the benefit of hindsight,
against the cumulative evidence made available since. One critical source of evidence,
which Remer neglected, was the British Exchange Banks and their changing relationship
with Chinese clientele. The case study analysed in these pages suggests that the
ramifications of the \textit{Wusa} Movement reached well beyond corporate boardrooms.

Some evidence to that effect featured \textit{passim} throughout Chapter 5. It showed that the
outbreak of intense anti-British sentiments in May Thirtieth 1925 resonated with Whitehall
long after bilateral trade, or banknote circulation volumes for that matter, had been shored
up. Britain's foreign policy in East Asia in the lead-up to World War II — its repudiation of
conservative expatriate views, its reconciliation with the GMD, its growing distrust of
Japan and its endorsement of the \textit{fabi} reform — cannot be adequately explained without
reference to the impact that the May Thirtieth Movement made on Whitehall's perception
of Chinese nationalism and its long-term prospects.

Unlike Remer, the great bulk of research subsequently published on anti-foreign boycotts
and nationalist movements in Republican China tended to skirt around thorough economic
analysis in favour of the cultural, intellectual, journalistic, organisational and political
dimensions.\textsuperscript{170} This is, perhaps, why it is heavily weighted toward the May Fourth
Movement (1919), which marked a historic turnaround in Chinese socio-political
consciousness but was — certainly for the Western Powers — of much less economic
significance than the May Thirtieth Movement six years later. To correct this imbalance,
more work in the future seems to be called for.

\textsuperscript{169} See Remer (1933), \textit{passim}.

\textsuperscript{170} See, e.g., Chen, Joseph T. (1971).
The two previous conclusions were derived from — and were largely supported by — balance-sheet figures. The following ones are of a more tentative nature.

One observation featuring in this thesis, which accords with revisionist findings by notable China scholars in recent years, is the crucial role played by the GMD in reinforcing Chinese sovereignty, and in pushing for national integration. Long-held perceptions of the Nanjing government as weak, ineffectual and corrupt may have formed in the West as a result of the Nationalists’ poor performance after the Pacific War. Nonetheless, when confined to the pre-war era, GMD achievements at revitalising central authority reverberate throughout Chapter 5, which describes Nanjing’s adroit maneuvers in the lead-up to national currency unification and during the Leith-Ross mission.

The Song Ziwen – Kong Xiangxi duo received particular attention. The economic policy that the two men had jointly pursued as alternate Finance Ministers proved successful in stemming monetary fragmentation and in consolidating the Chinese banking sector. Concomitantly, they forestalled the recovery in quasi-foreign banknote circulation volumes during the early 1930s, and brought foreign bank taipans to heel with their peculiar blend of humbug and belligerence. Later, they skillfully played off Whitehall, Tokyo and Washington against one another to ultimately secure an American loan with which to back up the new Chinese currency. Although the value of the fabi nose-dived shortly before Japan’s invasion of China in 1937, at least one tenet of the Song-Kong legacy prevailed — namely, the rollback of foreign banking and overseas banknote issuance.

The spread of quasi-foreign banknotes in China proper during the first quarter of the 20th century did not merely reflect a trivial idiosyncrasy of the treaty-port economy; it was an issue directly affected by the performance of successive Republican governments in their attempts to reclaim China’s prestige and sovereignty in the diplomatic arena. At the same time, it should be understood as a corollary of the breakdown of central authority and institutional trust beginning in the late-Imperial era.

Promulgated in 1935, currency unification per se entailed a fairly belated top-down writ that would have rung hollow unless the Nanjing government had ably mustered


\[172\text{ See, e.g., the highly critical monographs written by Fewsmith (1985) and Sheridan (1975).}\]
international backing and, in turn, demonstrated that its budget deficit and state-run banks were on the mend. The failure of the warlord-dominated Beiyang governments to reform Chinese banks along these lines before 1927 — their shared penchant for overprinting and debasement — increased market insecurity to the extent that quasi-foreign banknotes traded at a considerable premium over Chinese bank notes.

It would be implausible to assume that this insecurity was any less endemic in China’s agrarian sector, or that it did not raise transaction costs in the hinterland in quite the same way as it did in the urban sector. In that sense, ‘optimistic’ accounts of China’s pre-war economy are right in drawing attention to the proliferation of paper money in the hinterland. However, it should be remembered that quite often this was the result of warlord excesses rather than an indicator of growing market integration.

6.4 British Banking in China

The failure of late-Qing and early Republican governments to stem the breakdown of popular trust in state-issued currency was an experience not entirely removed from that of some European and colonial governments before the consolidation of central banking in the early 20th century. But, as Sections 1.1 and 1.2 have shown, the introduction of central banking in Europe had been preceded by almost two centuries during which private banknote issuance was receding, while in China the opposite trend persisted.

This thesis began by invoking an under-studied puzzle: despite the fact that paper money had been widely used in China long before Europe, it was mostly chartered British banks that restored public trust in this means of payment during the latter part of the 19th century. Why exactly, then, was there such clear preference for quasi-foreign banknotes over domestic bank notes in China? It seems that more advanced European printing and counter-forgery technology cannot adequately explain this preference. For, as indicated in Chapter 4.2, major Chinese banks like the IBC had ordered their notes from European printers too.

The immediate explanations for the popularity of British bank notes in China lies, of course, in the higher specie reserve ratios adhered to by British banks, and their immunity to Chinese government diktat which — when foisted on local banks — often meant expropriation of silver reserves. But more generally, the Treasury reserve principles that bound HSBC and CBIAC were just one by-product of institutional innovation, which had

first emerged in London in the 16th century, and which eventually transformed the City into
the world's largest financial clearing hub. Indeed, much of the legal and regulatory theory
underpinning these two banks carried over from, and was consistently refined by, earlier
experience with monopolistic joint-stock trading companies like the EIC, or with failed
chartered overseas banks like the OBC.

What this study might also offer, then, is some insight into the factors that had set the
foreign corporate sector in the treaty-ports apart from the domestic sectors. Differences
here can be reduced to the use of fungible equity and the provision of limited-liability
prerogatives to achieve economies of scale. Impersonal ownership is, in the final analysis,
what distinguished large, publicly-traded corporate entities like HSBC and CBIAC from
Shanghai's diffuse and undercapitalised moneysops.

As discussed in Chapter 3.1, the Eastern Exchange Banks were predicated on Royal Charter
stipulations or Colonial Ordinances. These were enacted only in the 1850s as rough-and-
ready substitute for limited liability. Financial institutions other than the Bank of England
could be bestowed with statutory limited liability only in the following decade. Looked at
from a purely temporal perspective, therefore, the institutional division between British and
Chinese banks in Shanghai may not appear compelling. The crucial point to remember, at
the same time, is that what may seem like a fairly thin difference begot, in fact, one of the
root causes for European economic paramountcy in the early modern age. This insight
should become eminently clear, once 'California School' scholars have recognised the long
continuum linking the establishment of Europe's early joint-stock trading companies (16th-
17th centuries), with the emergence of non-chartered joint-stock companies (18th century)
and the consummation of limited liability and equity finance concepts by state regulators
late in the 19th century.\footnote{This institutional continuum has been explained with particular cogency by Rosenberg and Birdzell (1985), pp. 189-210 and Albom (1998), pp. 257-260. It stretched from Western Europe to its former colonies, coalescing into 'managerial capitalism' in the US by the early 20th century; Alfred Chandler has shown, in turn, that the formation of salaried corporate management in the US during the early 20th century had been closely linked to the consistent flow of British and Scottish accounting skills as from the 1880s. See Chandler (1977), pp. 464-465.}

Put baldly, this thesis suggests that the occurrence (or absence) of organic joint-stock
formations in China's long history is of secondary importance. What does matter is the
unwillingness (or inability) of China's late-Imperial bureaucracy to enforce such
arrangements as those, which underpinned non-kin equity ownership in Europe and its satellites. Overwhelmed by the efficacy of Western technology in the treaty-ports, the Qing Court was rightly convinced that drawing private capital to a government-led industrialisation effort was the only way to catch up with the West. But the resultant mixed enterprise (guandu-shangban) failed precisely because the Qing embraced the veneer rather than the substance of private ownership, as Feuerwerker and Faure have shown.175

6.5 Did Quasi-Foreign Money Matter?

This thesis has focused on British bank note issuance in Shanghai as a key constituent of a wider yet little-noticed monetary phenomenon that was referred to, for want of a better description, as quasi-foreign money. The volumes of locally-denominated notes, which British banks put in circulation in Shanghai, were found to be much lower than previously thought, but their qualitative contribution to the city’s economy should by no means be underestimated.

By and large, the growth of Shanghai’s economy between 1842-1937 derived from a distinct formula that set the city apart from the rest of China — turning it into ‘a gem on an elephant’s back’ to paraphrase Rhoads Murphey’s famous trope.176 While topography had made Shanghai a priori an ideal gateway to China’s richest provinces, it was the implications of extra-territoriality that drew Chinese capital to the city en masse. The Chinese first flocked to the city in search of a safe haven from the Taiping rebellion, then from warlord usurpation and central government coercion. Notwithstanding that the foreign

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175 Feuerwerker (1958), pp. 16-28; Faure (1994), pp. 86-87; see also Goetzmann and Koll (2004), pp. 13-19; studies documenting closely-related attributes of the Chinese early-modern economy are wide-ranging and on the rise. These include articles on deliberate opaqueness in Chinese accounting practices to avoid State interference – see, e.g., Gardella (1992); on the perfunctory emulation of Western corporate law in the early 1900s – see, e.g., Kirby (1995); and on the massive flight of Chinese private capital to safe havens in the treaty-ports – see, e.g., Ma Debin (2004).

176 Murphey’s original metaphor (1974, p. 39) cast Shanghai as “a fly on elephant’s back”, but such articulation overlooks the overriding concentration of Chinese wealth there. Ironically, Murphey exaggerated in the same article the impact of quasi-foreign money on the Chinese economy as a whole (ibid., p. 53, italics added): “By the end of the 19th century ...Notes issued by foreign banks in the treaty-ports circulated all over China at face value...they constituted an important element in the system of currency and had largely displaced the traditional notes of credit and transfer previously associated with this trade.”
concessions in Shanghai were often touted as a showcase of efficient Western governance in East Asia, Chapter 2 underscored the highly porous nature of their institutional foundations.

The importance of quasi-foreign money to Shanghai should be understood against this backdrop. Because of the global issue quotas imposed on CBIAC and HSBC by the British Treasury, even at the height of their popularity British bank notes were too small a component of the city’s money supply to eclipse the plethora of metallic currencies in use or eliminate shroffing costs. The SMC, on its part, was reluctant to introduce uniform metallic currency, in stark contrast to measures taken by the Hong Kong government. Quasi-foreign money seems to have mattered most as a store of value, therefore. It was part of the formula that drew Chinese capital to the city — a liquid safeguard against one specific form of warlord and central government depredation, i.e. debased coinage and inconvertible notes.

This observation may invoke recent debates about the historic merits or demerits of free banking. Generally, ‘free bankers’ view modern central banks as government marionettes; they invariably believe that governments are recidivist sponsors of inflationary policy, i.e. the printing of legal tender notes without proper backing. Drawing on a series of historic precedents, they argue that multiple commercial banks of issue would make more responsible arbiters of currency than central banks. But, surprisingly, pre-war Shanghai is one pertinent setting that ‘free bankers’ have neglected to study. It lends at best very flimsy evidence for the ability of concurrent commercial bank notes to serve as nationwide medium of exchange, or to withstand sunspot runs without assistance from incumbent governments.

Pre-war Shanghai is a setting equally pertinent to, yet hardly noticed by, economic historians who work within the Gerschenkronian tradition. As indicated in Chapter 2.6, Alexander Gerschenkron (1904-1978) postulated that long-term bank credit had been a necessary condition for the industrialisation of European emerging economies where equity markets had been underdeveloped in the 19th century. Yet Daniel Verdier has suggested, in turn, that European commercial banks that had been granted note issue prerogatives tended to steer clear of the industrial sector due to liquidity concerns.

177 See, e.g., Von Hayek (1976); Selgin (1988).
178 Verdier (2003); cf. Gerschenkron (1966); see also discussion in Chapter 2.6.
Quoted at length in Chapter 5.5, Frederick Leith-Ross's classified memoranda criticised HSBC — the largest foreign bank of issue in China — for relying on the short-term finance of trade to the neglect of Chinese business needs. This critique seems to lend support to Verdier's theory, albeit from a part of the world not originally included in his study. It puts the longstanding and often impassioned engagement of Chinese scholars with quasi-foreign banknote issuance during the pre-war era in a rather new perspective.
Appendix 1

British Bank Note Circulation in Shanghai, 1881-1935  Unit: Silver Dollar (000)

Sources for Appendix 1:

CBIAC data compiled from Figure 3.5 (SH Tls. Converted to SHS based on a 0.715 parity).

HSBC data compiled in the main from Figure 5.2 and from HSBC GA SHG I - 51; SHG II - 1044. Midyear figure for 1881 gleaned from HSBC GA SHG LEDG 46. For the 1889 midyear figure – see the History, vol. I, p. 391, Table 11.1. For the 1894 year-end figure – see ibid., p. 485, Table 13.10.


OBC aggregate circulation volumes (1881-1883) compiled from Wang Jingyu (1983), pp. 273-275, Table 1. Shanghai’s share of the aggregate is estimated at 1% in accordance with early CBIAC data.

CMBILC aggregate circulation volumes (1881-1893) compiled from the Bankers’ Magazine and Muirhead (1966), p. 251. Shanghai’s share of the aggregate is estimated at 1% in accordance with early CBIAC data.

GBP figures have been converted to dollars throughout based on annual exchange rates featured in Hsiao Liang-lin (1974), pp. 190-192; Appendix 1 is exclusive of British bank outport or Hong Kong-issued notes circulating in Shanghai.
Appendix 2: Images

(1) HSBC 1-Tael Note Disbursed in Shanghai circa 1888
(2) A Shanghai Activists' Bill Explaining the Aims of the May Thirtieth Movement

Aim 8 Reads: “To Prohibit the Use of All Foreign Bank Notes in China.”

Reprinted in Rexue ribao [Hot-Blooded Daily] 22 June 1925, p. 1
(3) A Caricature Capturing the Prevailing Mood Among British Residents of Shanghai Soon After the Mid-1925 Disturbances.

The Chinese Activists are depicted as a virulent but small ape that will surely be crushed if it continues to provoke the ire of stoic Great Britain ('John Bull').

*North-China Herald, 1 July 1925 p. 9*
(4) An Advertisement by the Chinese Patriotic Tobacco Co. Promoting the *Wusa* ['May Thirtieth'] Cigarette Brand on the Heels of Anti-Foreign Sentiments.

The caption roughly translates as:

"Are you hurting? Our Countrymen have been vanquished and their human dignity has been shattered. Whither Truth and Justice? Do not forget *Wusa*, a time when our Country has been humiliated and its sovereignty trampled. Commemorate the dead!

This company and its staff have decided to carry these opening words to appeal to those who may see them and feel saddened. Lest all people of conscience forget the shameful atrocity inflicted upon us on May Thirtieth — please smoke *Wusa*-brand cigarettes.

With their unique taste, they will help you remember the dead from time to time."

*Xinwen bao* ['Sin Wan Pao'], 13 June 1925 p. 2
Reference List

Primary Source Acronyms

HSBC GA  
Hongkong and Shanghai Banking Corp. — Group Archives — London

CBIAC GL  
Chartered Bank of India Australia and China Balance Sheet — Guildhall Library Manuscript Collection — London

PRO  
United Kingdom Public Records Office — Treasury Files, Foreign Office Files, Colonial Office Files — London

SOAS  
Archive of the School of Oriental and African Studies — Charles Addis Papers, Maritime Customs Files, China Association Files — London

BoE  

NLA  
National Library of Australia — Braga Papers, Feetham Report — Canberra
Newspapers and Periodicals Consulted (Pre-1937 Editions)

Bracketed titles in ‘*’ indicate English translations of Chinese titles as they appeared on the original broadsheets.

Bankers’ Magazine
The China Press
Chinese Economic Bulletin
Dalu yinhang yuekan
Diplomatic and Consular Reports: China
Dongfang zazhi
The Economist
The Financial Times
Gongshang banyuekan
Guofeng bao
Hong Kong Government Gazette
Huazi ribao
Jingji xuebao
Minguo ribao
Nongshang gongbao
North-China Daily News
Quanguo yinhang nianjian
Rexue ribao
Shen bao
South China Morning Post
Straits Settlements Government Gazette
The Times
Waijiao bao
Xinwen bao
Yanyong
Yinhang zhoubao
Zhongyang yinhang yuebao

大陸銀行月刊 [Mainland Banking Monthly]
東方雜誌 [‘Eastern Miscellany’]
工商半月刊 [Commercial Bi-Weekly]
國風報 [Country Manner News]
華字日報 [H.K.: ‘The Chinese Mail’]
經濟學報 [Journal of Economics]
民國日報 [Shanghai: GMD Daily]
農商公報 [Farming and Trading Gazette]
全國銀行年鑑 [All-China Banking Yearbook]
熱血日報 [Hot-Blooded Daily]
申報 [‘Shun Pao Daily News’]
外交報 [Foreign Affairs Bulletin]
新聞報 [‘Sin Wan Pao’]
言庸 [‘The Justice’]
銀行周報 [‘The Bankers Weekly’]
中央銀行月報 [‘Central Bank Monthly’]
Books, Book Chapters and Articles


Barber, Noël. 1979. The Fall of Shanghai. New York: Coward, McCann & Geoghegan.


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*Shanghai qianzhuang shiliao* 上海钱庄史料 [Historical Records on Shanghai’s Moneyshops]. 1960. Comp. by the People’s Bank of China. Shanghai: Shanghai renmin chubanshe.


Yang Duanliu 楊端六. 1962. *Qingdai huobi jinrong shigao* 清代貨幣金融史稿 [Historic Overview of Currency and Finance During the Qing Dynasty]. Beijing: Xinhua shudian.


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