PRINTED IN LONDON, DISBURSED ON THE BUND: THE HONGKONG BANK AND ITS EARLY NOTE ISSUE IN SHANGHAI, 1865–1911

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This article explains how banknotes issued by the Hongkong and Shanghai Banking Cooperation revolutionized traditional money markets in Shanghai during China's late-imperial era (1865–1911).[1] Drawing on local balance sheets and other primary sources, the article demonstrates that note issuance by British banks in China proper was a quantitatively modest but potent financial instrument that helped minimize 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 article 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 savvy, a powerful network of connections and financial innovation.[2] Although Britain's share of the region's trade progressively declined by the turn of the twentieth century, no other European-owned bank operating in East Asia could achieve comparable growth rates, or rival the Hongkong Bank's leverage over indigenous sovereigns. In various capacities, the Bank [hereafter HSBC] came to play a significant role in the modernization 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;[3] it was behind the issue of the first

1 The author is indebted to Edwin Green, Sara Kinsey, and their staff at HSBC Group Archives, without whose hospitality and profuse counsel this research would not have been possible. Nishimura Shizuya, Patrick O'Brien, Mark Elvin, and Pierre van der Eng have graciously taken the time to read and comment on previous versions of this article.

2 Allen and Audrey 1954: 107–108.

3 See Hamashita 1983: 321–349.

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banknotes in Siam, and served as adviser to successive Chinese governments on economic development—to name but few salient examples.[4]

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 favored 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, the Bank 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.[5] But if postwar realignments have long 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 among 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,[6] in establishing a monopolistic banking Consortium to corner Chinese government loans,[7] in extracting indemnity payments from China,[8] in manipulating exchange rates in Shanghai,[9] and last but not least in undermining the city's indigenous banking sector.[10]

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4 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 GA] F1.1, "The Note Issue." The Chartered Bank of India, Australia and China and Banque de l'Indochine followed HSBC's lead only decade later; Cf. Conant 1927: 604–605; On HSBC as advisor to the Chinese Governments see, e.g., Coble 1980a: 126–127.

5 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 Deutsch Asiatische Bank, and to "eliminate German Business"—in GA SHG II 183. For an incisive biographical sketch of Bland (1863–1945), see Bickers 2004.

6 See, e.g., Wang 2001: 396–400; On the economic nexus which propelled the opium trade with China, and on its opponents, see Blue 2000: 31–54.

7 In an influential article entitled "Financing Imperialism: British and American Bankers as Vectors of Imperial Expansion in China, 1908–1920," Clarance 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: 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 J.R. Jones, "Brief Notes on the History of the Bank," in GA J11–16, f. 13; Cf. Chen 1965: 107–120; Baster 1977: 184–189.

8 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 GA J11–37.

9 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 synchronize with China's government foreign debt repayment schedule, thus unduly netting a profit of Tls 1.9 million; see Gao 1981: 226.

10 Zhang Guohui 2002: 391–392.

At the other end of spectrum, new work published in recent years mainly by Japanese scholars has helped us concretize 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."[11] 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 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.[12] 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 a "digressive style."[13] 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 study will try to revisit one such specific aspect of the Bank's pre-war operation where scholarly opinions are similarly polarized, 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 modernization of China's monetary system, how exactly banknote cir-

[11] 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.

[12] King 1987; For reviews of the *History* in this vein see Thomas 1989; Coble 1980b.

[13] 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: 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 1989.

culation 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 which retarded China's economic development, and through which foreign banks scooped a shady windfall.[14] Assertions to that effect had begun in 1958, and have scarcely relented since.[15] In a representative compilation, co-authored as recently as 2002 by some of China's best-known economic historians, Zhang Guohui described those banknotes as "a vital means with which to plunder the peoples of colonized and semi-colonized lands."[16] 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 fangfa*) to expand its note circulation—i.e. disburse more notes over the counter whenever rival Chinese banks faced liquidity crises.[17] Notably, both compilations draw exclusively on secondary sources or press reports to substantiate their claims.

This article will seek to chart the middle ground between the assertions often made by Chinese scholars and King's summary dismissal of them.[18] The first section will plot, in a nutshell, the business rationale behind the Bank's banknote issue, and how it was seen within the tapestry of Chinese late imperial economic discourse. With particular emphasis on mainland China, the second section will explore how and why the British Treasury regulated overseas banknote issuance. The third section will analyze 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, London, and China [hereafter CBIAC].[19] Finally, I will try to reassess the

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14 The term "quasi-foreign" is used here to designate those notes denominated in *local* units of account, which European (and later Japanese) banks issued in nominally sovereign parts of East Asia. These notes are not to be confused with other notes issued by many of the same foreign banks in a colonial setting. Applied to HSBC, the term distinguishes between Tael and Dollar notes issued by the Bank in the Treaty Ports opened up by the British on the China Coast, Japan, Siam, and Hong Kong or Straits Settlements Dollar notes issued in the colonies.

15 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 1958.

16 Zhang Guohui 2002: 238.

17 Kong 2001: 1036.

18 See for example King 1990: 26–27.

19 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

historic significance (or insignificance) of HSBC's banknote issue in China proper between 1865–1911.

Circulation Patterns: Cause and Effect

First printed in London and launched in Shanghai circa 1874,[20] 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 in line 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 mobilized *within* Asia.[21] 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.[22] 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 popularization of notes by foreign banks in mid-nineteenth century East Asia was inextricably linked with the growth of a much more important local banking activity: the pooling of fixed deposits.[23] In China, foreign banks offered notes on demand with two objectives in mind. First and foremost, paper notes whose value was on a 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 a 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

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Chartered Bank is available because, unlike HSBC, its Head Office has always been located in London. Consequently, records sent there from China branches escaped the sort of degradation wrought on local HSBC records by the Pacific War.

[20] 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: 269.

[21] Nelson 1984: 202–205.

[22] See Jones 1990: 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 Britain and China.

[23] A similar conjuncture of a fairly free note circulation and deposit agglomeration lay at the heart of joint-stock bank ascendency in the British Isles between 1830–1870. See Collins 1988: 93–97.

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, thereby netting a handsome interest rate margin.

The fiduciary principles in the HSBC ordinance were partly inspired by nineteenth-century Scottish banking practices, whereby private banks enjoyed lucrative note issue prerogatives.[24] 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 the 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.[25] Decades later, relations between the Treasury and the Bank remained strained over similar issues. In fact, relations might have boiled over if it hadn't been for the Colonial Office's resolute advocacy of the Bank's role as a stabilizing force in the economic fabric of Hong Kong, and the persistent reluctance of the colony's government to administer the 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 among 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 memorialize the throne on the acute underdevelopment of China's financial sector.[26] 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 moneyshops had been issuing paper money in China ever since 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.[27]

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[24] 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 1927:142–170, 590–593; Checkland 1975: 381–384, 435–439.

[25] King 1987 vol. I: 74–77, 158–160; On Hong Kong's short-lived Mint, see Tom 1964: 38–41.

[26] For a general survey of late Qing economic reforms see Ch'en 1980: 120–123. On Zhang Zhidong's economic standpoint see Li 2003: 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 1972: 20–23.

[27] Ye 2002: 599–604.

By the late 1890s, the protestations of reformers paved the way for a mushrooming of government-run provincial banks across China.[28] These banks tried to lay down roots primarily by circulating paper notes modelled on novel designs and printing technology inspired by the foreign bank notes, rather than by China's own traditional drafts (*piaotie*). 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.[29] Yet, the trends in Figure 1 may still shed light on the inner workings of the early Chinese banks, when compared with individual foreign banks, represented below by CBIAC.[30]

Broadly speaking, Figure 1 shows that the *average* ratio of notes outstanding to total liabilities for Chinese banks between 1897–1911 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 note issuance period in the Shanghai branch began in 1886 - much earlier than was the case with the first Chinese modern banks. For the entire period between 1886 and 1911 the average Shanghai branch ratio was actually as low as 3.5%.[31]

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, whereas 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.

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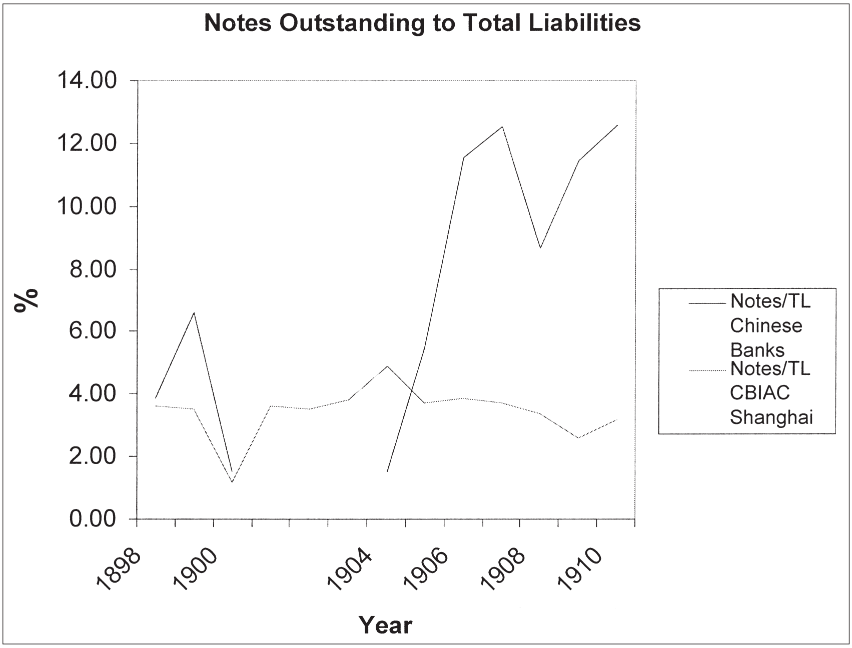
28 Jiang 1991: 3–17; Huang 1994: 96–104.

29 On the statistical pitfalls confronting Chinese banking historians, see Tang and Huang 1985:57, 61–62.

30 Figure 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 1943: 361–362. In addition, the data do not seem to incorporate Chinese provincial banks, where overprinting of notes was endemic—see for example Huang 1994: 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.

31 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 in 188. See GL Ms 31519/1–26



Source: The average ratio of notes outstanding to total liabilities for a cross-section of Chinese banks is calculated from Cheng Linsun, *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks* (New York, 2003) Table 1.2, p. 34; The parallel ratio for CBIAC Shanghai branch is calculated from the Guildhall Library balance sheet collection in London (hereafter GL Ms 31519).

Structural disparities between the two sectors partly derived from geographical distribution: Chinese banks had, of course, much more leeway to popularize notes in the vast hinterland that stretched beyond the confines of the Treaty Ports.[32] But the disparities may have also derived from the 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 epitomized this partiality. As a compradore for Butterfield, Swire and Co., he witnessed foreign business practices from within. Turned an official, he com-

[32] 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.

mented with disdain that the proliferation of quasi-foreign notes was merely a result of Chinese mercantile inertia and cronyism (*xunqing*) in its financial sector.[33] Zheng and others called on the throne to foster government-run banks to counter foreign economic inroads. But their frame of reference and argumentation was not materially different from Qing bureaucrats, who previously tried to persuade the court to overprint paper money as a panacea for the dynastic decline. Nonetheless, the traditional monetary discourse did change to the extent that, whenever the early reformers had been castigated during the 1850s, reformers in the 1890s could make more daring suggestions—like the adoption of a gold standard—with impunity.[34]

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 a substitute for imported opium from India, and that Imperial consulates be opened in Singapore and San Francisco to tap overseas Chinese wealth.[35] 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.[36] 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.[37]

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 has often been blighted by indecision and contradictory thrusts that precluded lasting synergy between the state and private spheres in the realm of money. By the mid-nineteenth 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.[38] Ultimately, it was the affluent executives of these Treaty

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33 Xia 1981: 73–75; Zheng 1982 vol. I: 685.

34 Within the Imperial bureaucracy, the chief proponents of banknote issuance in the 1810s–1830s had been Cai Zhiding, Wang Liu, and Xu Mei 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 1963: 36–43; Yang 1962: 104–113. By the turn of the century, Zheng Guanying and several other Qing officials argued that China needed to abandon the silver standard in favor of a more stable gold-pegged currency; see e.g. Zheng 1969: 921–927; Huang 1994: 90–91.

35 Zheng 1982 vol. I: 19–22, 71–75.

36 Zheng 1982 vol. I: 192–193.

37 Zheng 1982 vol. I: 680–681, 683–690.

38 Elvin 1999:1–16.

Port firms, the *taipans*, who guaranteed that the eastern thrust of Her Britannic Majesty's gunboats would remain economically viable.[39]

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.[40] In 1908, for example, the British legation in Beijing informed the Foreign Office that "[The] Shanghae (sic) 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."[41] The Chambers then approached Shanghai's Taotai [*daotai*], the once all-powerful prefectural commissioner, to clarify the restrictions under which moneyshops 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 Imperial Bank of China (*Zhongguo tongshang yinhang*). 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.

The subsequent statement did not mince words in an effort to rouse the Board 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 [Hankou], of unknown capital, has a note circulation of over 20 million dollars, that the private bank at Shanghae [*sic*] has issued notes equivalent to its paid-up capital, that another at Hangchow [Hangzhou] has notes of a face value more than three times in excess of its paid-up capital, and that two other institutions at Soochow [Suzhou] and

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39 McLean 1976: 292–293, 300–304.

40 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 and *not* between them. That the foreign banks were in fact ambivalent about monetary unification is evidenced by the fact that they discounted their own notes by 5% when presented for encashment in another Treaty Port. See e.g. Conant 1927:598–599.

41 See classified report from Jordan to Grey, dated 11 December 1908, in UK Public Record Office (hereafter PRO) FO 371/435, ff. 561–562, 570; Cf. Cheng 2003: 162, 168.

> Nanking [Nanjing], 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.[42]

It should be pointed out that the good reputation that the Imperial Bank of China [IBC] still enjoyed among foreigners at that stage was due to the fact that the bank's patron, Sheng Xuanhuai, had partly modelled it on the HSBC in 1897, albeit with opposition from *Zongli yamen* officials fearing "excessive" private ownership.[43] The IBC was China's first limited-liability bank, the first to employ foreign staff, and the first to order notes from overseas printers.[44] In conformity with early HSBC guidelines, IBC's total banknote issue was at no time to exceed paid-up capital, and one third of it was to be covered by a cash reserve. However, fragmentary balance sheet data suggest that this stipulation may not have been enforced after 1906.[45]

Imperial attempts at regulating banks in China came too little, too late. When they 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 never broached.[46] By then, foreign expatriates had also realized 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.[47]

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 except those issued by the Imperial Bank of China .[48] But the directives emanating from Beijing were hopelessly contradictory, as an earlier edict from the previous year permitted privately-owned moneyshops to continue issuing notes to clients, provided that they were backed by five mercantile guarantors.[49] Good intentions notwithstanding, neither edict could have been implemented on the ground by a rapidly atrophying central authority.

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42 Jordan to Grey, dated 11 December 1908, in PRO FO 371/435, ff. 561–562, 570.

43 See Feuerwerker 1958: 228, 232; Cf. Hamashita 1980: 459.

44 ZGDYJYH 1982: 157.

45 Feuerwerker 1958: 230–231, 233, 240 (Table 24); ZGDYJYH 1982: 28–29.

46 Huang 1994: 100–104.

47 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.

48 See pamphlet dated 22 June 1910 in GA SHG 1 – 53; On the Imperial Bank of China, which was established in 1897 and partly modelled on the HSBC—see Feuerwerker 1958: 225–241.

49 See translation of Imperial Edict dated 22 June 1910 in GA SHG 1 – 53 .

The Evolution of Note Reserve Requirements

Colonial Banking Regulations in the mid-nineteenth century imposed 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.[50] The Hong Kong 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.[51]

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.[52] This principle was relatively

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50 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 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: 112. The CBIAC Shanghai balance sheets suggest, however, that this guideline was not applied uniformly.

51 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 *Straits Settlements Government Gazette*, vol XXXII, 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 ¼ of its notes outstanding in Singapore and Penang, while HSBC drew on its Hong Kong reserve to cover its note issue there; cf. King 1987 vol. I:120–122.

52 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

easy to apply in Hong Kong and the Straits Settlements. Yet, the Treasury was completely uninformed as to what was happening in the Treaty Ports, where for decades *all* British banks violated the stipulation by disseminating 1 Tael and 1 Mexican dollar bills.

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 nineteenth century.[53] OBC left hundreds of debtors around the world clamoring for compensation. In Ceylon, where the it had a particularly large note circulation, the crisis threatened to destabilize 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.[54]

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 ex post recognition from the Treasury of its branches and note issuance outside Hong 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."[55] 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.[56]

Differences soon emerged between the Bank 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

claim against stakeholders' private property, if the bank was stripped of all its assets and unable to redeem notes.

53 On the collapse of Ceylon's coffee plantations, which brought down the Oriental Banking Corporation, see Bandarage 1983: 77–79.

54 Chiang 1963: 356–360.

55 See HSBC Chief Manager G.E. Noble to J. Stewart the Hong Kong Colonial Secretary, dated 8 June 1889, in PRO CO 129/241, ff. 621–624.

56 See Treasury letter to Under Secretary of State for the Colonies, dated 22 Feb 1890, in PRO CO 129/248, f. 273. 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 from the unremunerative metallic one.

the Bank's incorporation ordinance unless a different portfolio of securities was presented.[57] 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.[58]

Until the twentieth 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 fourteenth century, and meant that Treaty Port demand for this medium of payment trailed far behind the vigorous monetization that typified Hong Kong and the Straits Settlements.[59] 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 the global issue quotas set by the Treasury to the Treaty Ports.

The China issue became a strategic factor in British bank thinking only in the early twentieth 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 [hereafter MBI]—with a sterling-pegged governmental currency came to fruition. A gold standard for the colony 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.[60] 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 bank issues.[61]

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57 See Treasury to Under Secretary of State for the Colonies, dated 18 July 1890, in PRO CO 129/248, ff. 295–296.

58 See Treasury to Under Secretary of State for the Colonies, dated 4 August 1890, in PRO CO 129/248, ff. 299–300.

59 Nelson 1984:157–159; Tom 1964:50–56. On the deep-seated suspicion of paper money in late Imperial China, see e.g. Cheng 2003:160–161.

60 In the pre-war era, the major British banks operating in East Asia were collectively referred to as the "Eastern Exchange banks," 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 King 1987, vol I: 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 1963:355–357 and Nelson 1984: 190–197, 223–229.

61 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.

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 *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 Hong Kong Blue Book 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.[62] 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 the Bank's Hong Kong headquarters, and that local profit margins were similarly wider there.

This 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.[63] 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.[64]

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 entertained 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 Tical 2.5 million in total.[65]

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62 See *Straits Settlements Government Gazette,* vol XXXII, no. 33, dated 10 August 1898, p. 665.

63 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.

64 CBIAC net published profits are listed chronologically in Jones 1993, Table A5.I.

65 See the laconic reference to the Bank's Bangkok in GA F1.1, "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 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 Gonjō 1993:181–182.

The issue quota set by the British banks for China rose immediately after they had realized that they were about to lose Southeast Asian note markets. As early as 1899, the HSBC Head Office in Hong Kong informed the Shanghai branch that it had revised the cap placed on the circulation of locally-denominated notes on the mainland from 1 million to 1.5 million dollars—2/3 of which was allocated for Shanghai.[66] 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 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 nineteenth century there was another important turning point in Treasury policy, which would counterbalance 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."[67] 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 authorized 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.[68]

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66 See S/O (semi-official) memo from Head Office to Shanghai, dated 3 November 1899, in GA SHG I–51.

67 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.

68 See, e.g., King 1987 vol. I: 68.

The evolution of reserve requirements imposed by the Treasury on the Bank during the late Qing are summarized in Table 1 below:

Table 1: HSBC Note Issue: Reserve Requirements 1865–1906
Unit: HK$ millions

	Metallic	Bonds	Fiduciary	Excess Issue	Max Total Issue
1865–1888	2 ½	0	5	0	7 ½
1889–1891	2 ½	2 ½	2 ½	0	7 ½
1892–1897	3 ⅓	3 ⅓	3 ⅓	0	10
1898–1906	3 ⅓	3 ⅓	3 ⅓	5	15

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

From Table 1, it can clearly be seen that there had been 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—i.e. the potential for profits wore down over the course of time. Until 1888, the fiduciary ratio stood at 66%. 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 33%. 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 must 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 had been definite signs that popular suspicion of notes in China had made way for demand-side pressures. The fact that the 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. On November 1904 Head Office informed Shanghai:[69]

> …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.

[69] S/O from Head Office to Shanghai, dated 17 November 1904, in GA SHG I–51.

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.[70] 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 1911 revolution, 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:[71]

> 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.

The wording inevitably retains some of the "Eastern Exchange" bank jargon. Put simply, the memorandum gave the branch permission from Head Office 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, 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

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70 See Shanghai branch to Peter Smith in Head Office, dated 12 March 1908, in GA London II – 670; "Notes Outstanding" in GA SHG I–51.

71 See S/O from HO to SH Branch, dated 30 Dec 1911, in SHG I – 51.

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.[72]

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" (*waitan*)—Shanghai's vibrant cosmopolitan business district on the banks of the Huangpu River—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 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 Tls. 1 million.[73] This required foresight, because quasi-foreign banknotes use in Shanghai had until then faltered—for example, CBIAC withdrew its first issue completely 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. Yearend 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.[74]

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 reveals 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. Tables 2 and 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.

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72 Ibid.
73 See GA SHG LEDG 51.
74 Ibid.

Table 2: HSBC Shanghai Branch Balance Sheet—30 June 1876
Unit: Shanghai Tls., thousands

Assets		Liabilities	
Cash	329.4	Branch Capital	1,092
Metallic Bullion	334.7	Note Circulation	78.5
Advances and Loans	2,383.6	Current Accounts	1,291.7
Inter Agency Account	1,958.3	Inter Agency Account	1,060.8
Bills for Collection	32.3	Deposits	720.2
Head Office Account	8.8	Head Office Account	212.8
Sundry Accounts	125.1	Suspended Accounts	695.2
Profit & Loss	163.2	Sundry Accounts	40.2
		Bills in Hand	32.3
		Bills Payable	7.5
		Profit & Loss	104.1
TOTAL	5,335	TOTAL	5,335

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 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.[75] Bullion holdings in Shanghai are about 4 times bigger 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%.[76] 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 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.[77] Nonetheless, Table 2

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75 The global percentage is calculated from King 1987 vol. I, Table 6.6, 196–7.

76 Ibid.

77 Baster 1977: 160–178; Cf. Conant 1927:598; Allen and Donnithorne 1954:110–111. W.E. Nelson described the Eastern Exchange banks as financial institutions whose "real business [was] exchange operations, note issue, and services to government." See Nelson 1984: 37. He is one of the few commentators who recognized fiduciary note issuance and colonial government backing as enduring constituents of British bank strategy in pre-war East Asia.

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) makes up only 37% of local assets or 48% of liabilities. The lion's share of branch activity is, 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—that is, means to attract depositors, safeguard credit to indigenous borrowers, and reduce shroffing costs.

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 mass 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 and Head Office in Hong Kong were surprisingly small (Tls. 8,400 in debit).[78] Globally, the Shanghai branch was a 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—that is, 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.[79] 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

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78 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 twentieth century. China was a net exporter to Great Britain until the mid-1880s, but its position reversed thereafter. See Hsiao 1974: 148–150.

79 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 nineteenth century, the smaller Shanghainese bourse was nonetheless dominated by banking sector shares—see Thomas 2001: 38–41, 72.

the overall growth rate of the Bank.[80] Note circulation is now at Tls. 126,000, up by 47,000 from 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 (Tls. 1.6 million), although total intra-bank capital flows as a whole are down by 20%. The growth pattern is generalized in Table 3 below.

Table 3: Changes in Main Balance Sheet Entries of the HSBC Shanghai Branch:-
June 1876 to April 1881

Entry	Percentage Change
Note Circulation	+60 %
Fixed Deposits	+96 %
Current Accounts	+104 %
Advances and Loans	+33 %
Cash and Bullion	+70 %
Total Inter Agency and HO Turnover	–20 %
Credit Balance with Overseas Branches	+78 %
Total Liabilities=Total Assets	+22%

Source: Calculated from HSBC Group Archives—SHG LEDG 46

Table 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.[81] This lends credence to an insightful observation made by Wang Jingyu in 1983. Wang claimed that the founding of HSBC revolutionized 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.[82] HSBC was, in that sense, a very different animal from the

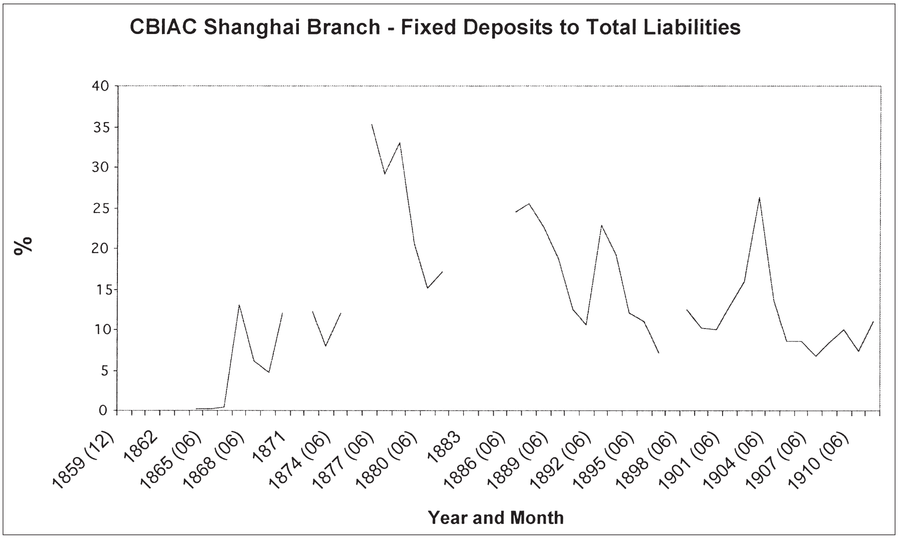
80 Overall, the Bank's total assets grew by 23% from $ 39 million in 1876 to $ 48 million $ in 1881. The Shanghai branch thus accounted for about 20% from the global aggregate during that period —calculated from the Shanghai balance sheet and King 1987 vol. I: 196, 269.

81 Hsiao 1974:148–150.

82 Wang 1983: 244–245, 257; A more raw version of the same observation appeared in an earlier article; see Wang 1963: 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 1990:86–88, 95–96. Nishimura Shizuya 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, and that much of these deposits had been drawn from Chinese firms and individuals. See Nishimura 1994: 25–27. Shanghai's leading vernacular newspaper, the *Shenbao*,

OBC, which 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 constituent of British banking in Shanghai during the 1870s and 1880s (See Figure 2 below).



Source: GL Ms 31519/1–25

But while Wang was generally right in his interpretation of foreign banking trends, concrete local circulation figures explicitly disprove some of the assertions subsequently 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.[83] Notably, the

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.

83 Zhang Guohui 2002:239. Zhang's estimate is based on perusal of an article in the *Shanghai Evening Courier,* dated 17 March 1874. In another example of overstatement, Cheng Linsun cites Tang Chuansi and Huang Hanmin, who estimated foreign banknote circulation in China proper circa 1911 at 35 million dollars, although HSBC's *total* circulation cap at the time reached only 15 million dollars, most of which was allocated for Hong Kong. See Cheng 2003: 162; Tang and Huang 1980: 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 industrialization. While there can be little doubt that foreign banks had mobilized vast amounts 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.[84]

Any locally-mobilized 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 industrialization both as intermediaries between foreign banks and the domestic sector, and as entrepreneurs in their own right.[85] But the data presented by Hao on the import of comprador investment in Imperial and privately-owned modern ventures in Shanghai conflict with other analyses, which strongly suggest that Chinese joint-stock firms were chronically undercapitalized right until the 1930s, and all but shunned by British bank decision-makers throughout the pre-war era.[86] Geoffrey Jones, who

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84 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: 68–74. For circumstantial references to the flow of Chinese deposits into foreign bank coffers, see e.g. Gao 1981:221–222; Baster 1977: 160, 180; Ding Richu 1994 vol II: 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: 86.

85 Hao 1970: 120–136.

86 See e.g. Huang and Lu 2002: 137–140; Lieu 1936: 91–98.

has devoted many years of research to the history of British banks in Asia as a whole, offered an incisive interpretation for their lending practices: "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."[87] 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, on balance, bad for the Chinese sector of the Treaty Ports? 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 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.

Conclusions

This study has primarily aimed at explaining the evolution of HSBC's note issue in China until 1911, based on unpublished in-house data. It has 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, mainly 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 twentieth 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 conspicu-

87 Jones 1994:153.

ously 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 to foreign trading firms to institutions that efficiently tapped the domestic economy. The contours of this transition have been demarcated in this article, 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 was a significant turning point neither because of its absolute volume nor because of its implications for Chinese sovereignty.[88] 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.

Glossary

Cai Zhiding	蔡之定
cheng ren zhi wei de fang fa	乘人之危的方法
Chen Guangfu	陳光甫
daotai	道台
Ding Richu	丁日初
duozhi bu	度支部
Gao Yang	高陽
Gonjô Yasuo	権上康男
Hamashita Takeshi	濱下武志
Hirase Minokichi	平瀨巳之吉
Hirota Akira	廣田明
Huang Hanmin	黄漢民
Huang Jianhui	黄鑒暉
Jiang Hongye	姜宏業
Jindai Shanghai gongye qiye fazhan shi lun	近代上海工業企業發展史論
Jindai Zhongguo jiazhi chidu yu yapian wenti	近代中國價值尺度與鴉片問題
Kindai shina keizaishi	近代支那経済史
Kong Xiangxian	孔祥賢
Li Xizhu	李細珠
Lu Xinglong	陸興龍
Omori Hiroyosi	大森弘喜
piaotie	票帖
shenbao	申報
Shengshi weiyan houbian	盛世危言後編
Sheng Xunahuai	盛宣懷
Tang Chuansi	唐傳泗
Wang Hongbin	王宏斌
Wang Jingyu	汪敬虞
Wang Liu	王鎏
Wang Maoyin	王茂蔭
Xia Dongyuan	夏東元

[88] This point of view is finally becoming recognized by younger scholars in the People's Republic—see for example Zhang Ning 2002: 307–312.

Xian Ke	獻可	Zhang Jian	張謇
Xu Mei	許楣	Zhang Ning	張寧
xunqing	徇情	Zhang Zhidong	張之洞
Yang Duanliu	楊端六	Zheng Guanying	鄭觀應
Ye Shichang	葉世昌	Zhongguo tongshang yinhang	中國通商銀行
Yokouchi Masao	横内正雄	Zhu Zhijian	朱志騫
Zhang Guohui	張國煇	Zongli yamen	總理衙門

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