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"Many a Long Day": HSBC and Its Note Issue in Republican China, 1912–1935

NIV HORESH

This article utilizes the local banknote circulation volumes of HSBC, the largest foreign bank in China, as a gauge with which to explore political stability and state-building during the Republican era (1912–1935). It will challenge the prevailing view that British banks faced little resistance in China through the 1920s–1930s, and expose new archival evidence on the perception of, and mobilization against, foreign banks.

"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, who have money, prefer to deposit

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it in foreign banks of all places. These deposits total hundreds of millions of dollars. Even when they deign to 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 Kuomintang Elementary School Textbook (1928)[1]

Introduction

Between the mid-nineteenth century and early twentieth century, European, Japanese, and American overseas banks issued a large volume of banknotes in parts of the developing world where 'free banking' (i.e., the absence of paper legal tender) prevailed.[2] This globally important but understudied facet of overseas banking practices first emerged in Latin America in the 1850s. Yet by the 1930s, it had been largely confined to Shanghai and to the Crown Colony of Hong Kong, where the British-owned Hongkong and Shanghai Banking Corporation, hereafter the Bank (HSBC), was a paramount financial institution.[3]

Monetary links between European colonies and self-governing regions of east Asia were not limited to the inflow of colonial currencies like the Indo-Chinese piastres, Hong Kong or Strait Settlements dollars. One of the least known properties of early European overseas banking is the fact that a considerable part of its note issue had been denominated in indigenous units of account. In China, for example, British banks had first issued notes denominated in the traditional *liang* or tael units of account.[4]

Some scholars have pointed elsewhere to the origins, vicissitudes, and regulation of British banknote issuance within China's late-Imperial economy (1842–1911), and analyzed at length the roles which banknote issuance played within British overseas bank

1. *Sanminzhuyi qianzike*, Vol. I, Chapter 34. The Chinese Nationalist Party [Kuomintang] is also known in the west as KMT [GMD in *Pinyin* transliteration]. Apart from this term, Pinyin transliteration is preferred throughout the article.

2. For a cursory survey of this monetary phenomenon, see Schuler, "The World History of Free Banking"; For a numismatic coverage, see Pick, *Standard Catalog*, Vol. I.

3. See King, "Hong Kong's Private Note Issue"; Cribb, *Money in the Bank*. HSBC was headquartered in Hong Kong rather than in London. However, because its incorporation drew on the British overseas banking system, the Bank has always been considered a part of it.

4. See Pick, *Standard Catalog*, Vol. I, 253–288

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operations.[5] In turn, there has recently been a 'mini explosion' of new studies chronicling China's homegrown modern banks.[6] These new studies suggest that competition and substitution between foreign and Chinese banks of issue were critical to the development of modern banking in China.

This article will draw on both threads of literature, as well as on declassified HSBC archival sources, in order to re-examine the political and economic climate in China through much of the Republican period (1912–1935). It will present some anecdotal evidence to suggest that the chaotic circumstances and enfeeblement of central authority that accompanied the early Republican period sustained Chinese demand for foreign bank notes in the treaty-ports. Conversely, the article will argue that, as from the mid-1920s, competition by Chinese owned modern banks, spells of anti-foreign agitation, and Kuomintang Government resolve helped stamp out foreign banknote issuance.

Five sections loosely follow the chronology of the Republican era. Section 2, below, will briefly explain how internecine warlordism and the erosion of central authority during the early Republican or Beiyang period (1912–1927) unleashed bouts of paper money overprinting in the hinterland, thereby propping up the demand for secure means of payment within the foreign-dominated treaty-ports; Section 3 will present new evidence on the May Thirtieth or *Wusa* Movement (1925–1926), which marked a downward shift in the circulation volume of HSBC banknotes in Shanghai; Section 4 will argue that subsequent Kuomintang nation-building efforts forced HSBC and other foreign banks to downsize, and to completely renounce their note-issue privileges by 1935. This renunciation echoed a much wider trend, which had begun in the mid-nineteenth century, and saw various 'free banking' systems around the world give way to central banking and 'territorial currencies' (i.e., sole legal tender per country).[7] Finally, an attempt will be made to assess the historic significance of HSBC note circulation figures in Republican China.

The chain of events outlined above is by no means self-explanatory. Most English language accounts of foreign banking in prewar China

5. See, for example, King, "Hong Kong's Private Note Issue"; Horesh, "The Hongkong Bank."

6. The term 'mini explosion' was coined by Sheehan, "The History of Chinese Money and Banking." It refers in the main to recent work by Cheng, *Banking*; Ji, *History*; and Sheehan, *Trust*.

7. On the rise of 'territorial currency' in world history, see Helleiner, "One Nation, One Money," and *The Making of National Money*. See also Cohen, *Geography of Money, passim*.

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either glossed over the ramifications of the May Thirtieth Movement, or depicted foreign bank attitudes toward Chinese monetary reform in the mid-1930s as cooperative.[8] Notably, Frank King's voluminous *History of the Hongkong and Shanghai Corporation* (published in 1987) does not mention the May Thirtieth Movement at all.[9] Drawing in no small part on King, Geoffrey Jones's influential study of British overseas banking (published in 1993) thus concluded:

> In British India, the Exchange banks began to be criticized for not lending sufficiently to Indians, and for not employing Indians at senior levels. 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.[10]

The evidence presented below aims to shed new light on the relationship between the Kuomintang and British business in China. In particular, it will revisit King and Jones's portrayal of the impact of Chinese nationalism on British banks, and could prompt scholars to consider whether the received wisdom on the course of Sino-British relations during the Republican period might not require some readjustment.

The Beiyang Period (1912–1926)

Historians of Republican China often grapple with the complexities of warlordism. Theorizing this phenomenon, or couching it in social science models, is an inordinately difficult task because the term itself—'warlord' (*junfa*)—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.[11]

8. Collis (*Wayfoong*), Mackenzie (*Realms of Silver*), and Tamagna (*Banking and Finance in China*) barely mention the May Thirtieth Movement; Dayer's account of the implications of the May Thirtieth Movement is unduly laconic, see *Finance and Empire*, 259–263. Curiously, the volumes on the Republican era in the *Cambridge History of China* (vols. 12, 13) have little to say on *Wusa*, let alone on its economic implications. See, for example, Feuerwerker, "Economic Trends, 1912–49." Ji's *History of Modern Shanghai Banking* is one of the few monographs in the field that address *Wusa* at some length, see xxv, 109, 112, 131–133.

9. King, *The History*, Vol. III. See also, King, "Defending the Chinese Currency."

10. Jones, *British Multinational Banking*, 191.

11. For a useful overview of various definitions of the term *junfa* from Song times on, see Lai Xinxia, *Beiyang junfa shi*, Vol. I, 7–18.

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Initial scholarly thrusts in the west were therefore centered on an analysis of individual warlords—their characteristic shade of governance, their religious beliefs, doctrines, client-patronage systems etc.[12] Most scholars 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. However, 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 characterized the Ming–Qing dynastic eras.[13] Although early Republican budget figures may not be entirely reliable, few scholars now question the fact that by honoring foreign debts incurred by the imperial *ancien régime*, and borrowing yet more, the new Republican Government compromised its executive powers and popular support base.[14]

Somewhat ironically, it was the notorious inflationary policies (*lanfa wujie*) of the warlord era that familiarized banknotes to dwellers of all but the most remote counties in the Chinese hinterland.[15] Because many warlords debased copper coinage, the mainstay of the Chinese monetary system, and printed a wide array of new notes irrespective of bank reserves, they aroused public probity in relation to almost all means of payment;[16] the pervasive political uncertainty and inflationary fiscal policies of the times generally compounded a flight from means of payment identified with the central government,

12. See Sheridan, *Feng Yu-hsiang*; Pye, *Warlord Politics*; Kapp, *Szechwan*; Gillin, *Yen His-shan.*

13. See, e.g., Goldstone, *Revolution and Rebellion in the Early Modern World*, 368–375.

14. The repayment of debt to the European powers and Japan took up at least one third of the central government budget between 1911 and 1916, whereas the figure stood at around 2 percent before 1980. The three largest sources of government revenue throughout the Republican period were excise on opium, alcohol, and gambling; salt gabelle duties, and maritime customs receipts—the last two having been, of course, under foreign tutelage. See Van der Ven, "Public Finance"; 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, for example Lin, "Building and Funding," 179, 189–203; Fitzgerald, "Increased Disunity," 752–759.

15. See report in the Chinese language magazine *Yanyong*, Vol. I No. 21, 1 October 1913, 8–9. cf. Pinnick, *China and Silver*, 37–38.

16. For contemporary observations to that effect, see, for example, Wei, *The Currency Problem*, Appendix I, particularly 133–134; Wagel, *Chinese Currency*, 165; Pinnick, *China and Silver*, 37–38; Peng Xinwei, *Zhongguo huobi shi*, 673–675; *Zhongguo jindai zhibi shi*, Chp. 3.

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as well as with the warlords, toward money that was endorsed in the treaty-ports by either Chinese private banks or foreign banks.

Even so, HSBC executives had been ambivalent about the sustainability of their China bank note issue, because successive Chinese central governments—despite their weaknesses—were toying with the idea of unifying all forms of currency under their wings. Though 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 ... 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.[17]

Since it did not mint coins itself, the Bank was prepared to welcome universal metallic Chinese currency, provided that foreign advisers oversaw its implementation.[18] Chinese oversight of the foreign banking sector and its paper money circulation in the treaty-ports was a

17. N.J. Stabb to A.G. Stephen, October 19, 1917 in HSBC Group Archives [Hereafter, GA] Currency F2. 3.

18. 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 sections will reveal, the KMT Government was the only one ready to implement such measures. The foreign advisers left behind a large body of literature on China's economic problems. The principal foreign adviser to the Qing was Jeremiah Jenks, and for details on his mission see Wagel, *Chinese Currency,* 86; Hanna, Conant, and Jenks, *Gold Exchange.* Another adviser, a Dutchman, G. Vissering, completed his work on China after the fall of the Qing—see Vissering, *On Chinese Currency*; Wagel, *Chinese Currency,* 111–112, 124–126. In 1928, the KMT Government invited E. W. Kemmerer, an influential Princeton University Professor, to overhaul China's silver currencies, and for details on his mission, see Ji, *History,* 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, *History,* 190–194, and Young, *China's Nation-Building Effort.*

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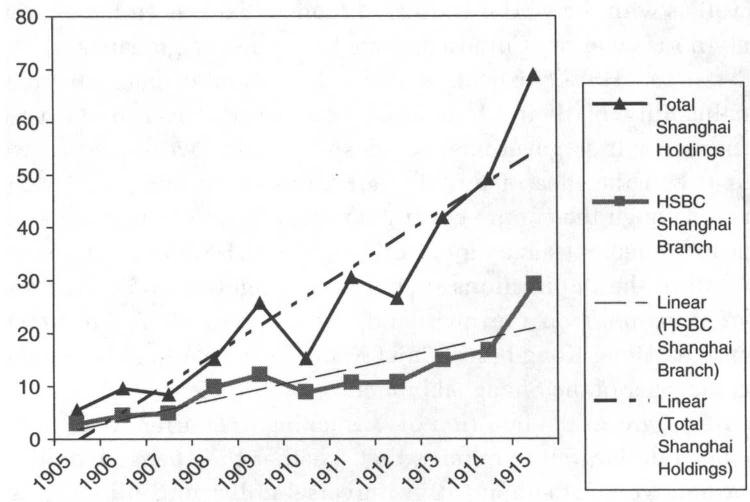

Figure 1 HSBC and Total Silver Holdings in Shanghai, Year-end 1905–1915 Unit: Silver Taels (Tls.) Million
Source: HSBC GA London II—Box 8 Item 123 (Inspector's Report on Shanghai, 22 October 1915). The conversion rate of silver tael into silver dollar hovered around 1.39 in the early twentieth century. Namely, a hundred silver taels were worth around 139 silver dollars.

thornier issue that HSBC correspondence usually skirted—here the Bank was a key player, not just an observer.

There is sufficient evidence to bear out HSBC's eminence in Shanghai, China's most important treaty-port and commercial centre, circa 1910s. Figure 1 illustrates HSBC's share of the total amount of silver in the city, based on the findings of a Head Office inspector who had been despatched to the branch in October 1915. These figures are instructive because silver—not gold or fiduciary currency—served as China's monetary base until 1935. Since reserve ratios varied considerably across the foreign and domestic financial sectors, silver holdings served as a more robust gage for any bank's local leverage than balance sheet totals.

However fast banknote circulation volumes were growing in the late 1910s, HSBC's large silver holdings were primarily used to support other liabilities rather than serve strictly as note reserves. Ordinarily, British overseas banks were required by their Royal Charters to maintain a silver reserve equivalent to 1/3 to 2/3 of the value of circulating notes. But in mid-1915, notes outstanding in the Bank's Shanghai branch totalled just under $3.5 million in value, while the stock of silver was estimated at Tls. 9.85 million or about $13.7 million. In other words, silver holdings were 3.9 times *bigger* than the face value of notes outstanding.

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Through the 1910s, as debasement and overprinting in warlord-dominated areas grew out of control, the Chinese popular press began calling on the Beiyang Government to adopt Western-style central banking and reserve requirements, and to lament the unreliability of Chinese banknotes.[19] 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 volume of notes they had printed to satisfy demand for secure means of payment in the treaty-ports. 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.[20]

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, and Singapore and San Francisco branch manager.[21] 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 the railways, imposing levies on

19. See, for example, report in the Chinese language magazine *Dongfang zazhi*, Vol. 9 No. 1, July 1, 1912, 9–13; *Dongfang zazhi*, Vol. 15 No. 8, 1918, 189–194.

20. The foreign banks' joint statement was attached to a report sent by A.G. Stephen (Shanghai) to Charles Addis (London), March 15, 1920. In HSBC GA Currency F2.3

21. On Baker's career and his role as the *Bank*'s ultimate auditor, see King, *The History*, Vol. I, 97, 162–163; Vol. II, 38, 105–106.

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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].[22]

Thomas Baker's visit to the Bank's relatively new Chefoo [Yantai] branch in September 1922 coincided with preparations for the first HSBC issue in this outport. 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 [Branch] 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."[23]

A letter from A. H. Barlow, then Deputy Chief Manager at Head Office, to E. G. Hillier, HSBC's representative in Beijing, probably best documents the Bank's ambivalence toward the sustainability of its China issue. Barlow indicated that vigorous demand for notes in Hong Kong meant that the Bank preferred to retire its small note circulation in Amoy [Xiamen] and Foochow [Fuzhou] in order to transfer to Hong Kong metallic reserves held in those smaller treaty-ports against the local note issue, and that "... we have restricted the circulation in Shanghai and the Northern Ports for the same reason".[24]

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 stark contrast to the Bank's policy, as pronounced 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]."

The Bank 's inconsistent stand on the mainland issue may have also derived from fledgling Chinese antagonism—both at the grassroot and official levels—which Barlow himself observed in the early 1920s:

22. The General Inspector's Report on China was submitted by Baker to the Hong Kong Head Office on September 29, 1922, in HSBC GA SHG I 327. On the volatility of the domestic banking sector in north China during the early 1920s, see also Sheehan, *Trust,* 85–109; Cheng, *Banking,* 196.

23. Inspector's Report on Yantai, September 2, 1922, in HSBC GA SHG I 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 materialized due to opposition from the local Chinese authorities. It should be noted that International Banking Corporation was much less politically connected in China than HSBC was.

24. Barlow to Hillier, January 6, 1922, in HSBC GA SHG II 576.

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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 long way off yet, however, so I hope matters will be left as they are for the present.[25]

Barlow's attitude toward the rising tide of Chinese nationalism should also be understood in the context of the longstanding extraterritorial privileges in Shanghai, which by the early 1920s had begotten a complacent British expatriate community amenable to almost no one but itself. Expatriate attitudes came to be symbolized, in a sense, by the inauguration of a new lavish HSBC headquarters on the Bund in 1923. The British-owned *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."[26]

To conclude this Section, it may be worth noting the key patterns that emerge from the evidence presented above. HSBC's note issue in early Republican China (1912–1925) was backed up by local silver reserves, the latter having supported a much wider scope of business. Demand for the Bank's notes remained high against the backdrop of rampant warlordism, and in the face of nascent concerns about the political sustainability of the issue. Silver holdings in Shanghai, as a whole, grew by leaps and bounds during the same period, pointing to the city's economic vitality. HSBC had accounted for about 40 percent of this growth in 1915, but its share was in progressive decline toward 1925.

25. Ibid. For a near-contemporary article in the financial Chinese press openly condemning the spread of foreign bank notes as a drain on the nation's resources, see, for example, *Dalu yinhang yuekan,* January 3, 1923, 58–62; cf. Beiyang Ministry of Finance records quoted in *Zhonghua minguo,* 1293–1308.

26. See *North-China Herald,* June 30, 1923, 860.

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The Big Bang of May 1925

What available data remains 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 2 below, show 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 2 suggests a plausible linkage between the May Thirtieth or *Wusa* Incident and the subsequent winding-down of the *Bank's* Mainland issue.

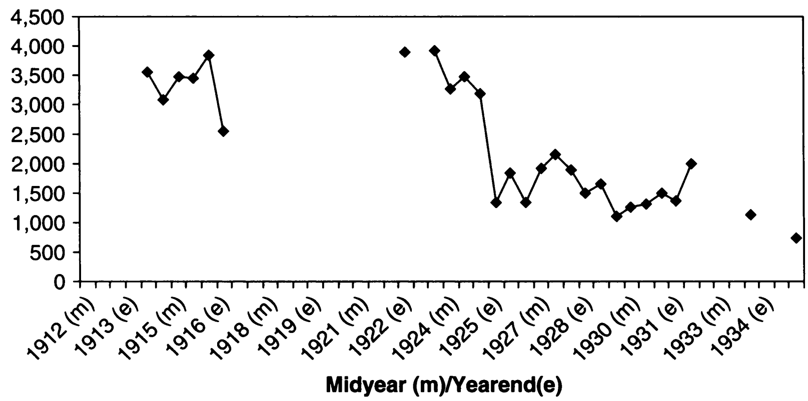

Figure 2 HSBC Circulation Volumes in Shanghai, 1914–1935
Unit: Shanghai Silver Dollar (000)
Sources: In HSBC GA: SHG II—1023; SHG 343. 1–5; SHG II 1044; London II—Box 8 Item 127 (Inspector's Report on Shanghai; GHO 96.2; GHO 13.2; SHG LEDG 294; In the UK National Archives [hereafter PRO]: FO 371/13 193; FO 371/18 130; year-end 1935 based on King, *The History*, Vol. III, p. 247.

The May Thirtieth Incident broke out in 1925 in Shanghai, when a labor 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.[27] The protest movement, which the incident sparked off, marked a definitive turning point in Sino-foreign relations. Not only did it force the Powers to enter into negotiations with the Chinese Government over the eventual

27. On the antiforeign flux unleashed in 1925, see primarily, Rigby, *May 30*, 38–56; cf. Borg, *American Polic*, 39–40; Waldron, *From War*, 241–244, 255–256.

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abolition of extraterritoriality, but it also changed longstanding Western perception of the Chinese as servile.[28]

Violent demonstrations rocked British diplomatic legations, and militated an increasingly assertive group of Chinese modern banks to fold back cooperation with their foreign counterparts.[29] Despite their transient nature, previous Chinese boycotts had managed to associate foreign bank notes with brute imperialism. British bank notes (denominated in tael or silver dollar) were therefore particularly vulnerable to popular rejection in 1925.[30]

Perhaps because it transpired backstage, and was played down in expatriate press reports, the boycott of British bank notes in Shanghai during 1925 has not attracted much scholarly attention.[31] 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 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 foreign bank notes; that 'wayward' moneychangers who accept foreign bank notes be punished; and that all Chinese residents of the city withdraw their deposits from foreign banks.[32] But in the absence 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

28. 'The Powers' is a term often used in contemporary literature to denote the countries which enjoyed significant extraterritorial rights in China: Britain, France, Germany, Russia, and Japan.

29. Some Chinese bankers demanded, for example, that customs surplus be deposited only with Chinese banks, see, for example, *North-China Herald*, September 19, 1925, 338.

30. For a useful, albeit sanguine, analysis of Chinese boycotts before 1925, see Remer, *Study*. For more recent appraisals, see, for example, Meissner, "Business of Survival." On Chinese boycotts of foreign bank notes before 1925, see Sheehan, *Trust*, 82; For calls to boycott foreign bank notes during *Wusa*, see, for example, report in *Minguo ribao*, June 3, 1925, quoted in *Wusa yundong shiliao*, 214; cf. Ibid., 184–185.

31. The first issue of the *North-China Herald* to report the disturbances appeared on June 6, 1925 (see 414, 416–417).

32. See report in *Minguo ribao*, June 3, 1925, quoted in *Wusa yundong shiliao*, 214; cf. Ibid., 184–185.

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reliable—local substitutes: cigarettes, kerosene, drugs and luxury items.[33]

A more focused set of data assembled in table 1 below underscores May 1925 as a turning point in the *Bank's* banknote circulation volume on the mainland. It lends additional support to the proposed linkage between note redemption and the *Wusa* Movement, which broke out on 30 May 1925.

That the mid-1925 recoil in note circulation volumes could not have been on HSBC's own initiative is evidenced by a wad of five bills of lading found in its archives. 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.[34]

After 30 May 1925, financial signs of distress from China were rapidly translating into turmoil on 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. By August 29, the share price had fallen by 15 and 11 percent in Shanghai and London, respectively.[35] HSBC shares were worst affected in the Hong Kong stock exchange. In early June 1925, the share traded at HK $1,290. By early March 1926, the price had sunk as low as 1,065, a drop of 17.5 percent.[36]

Recognizing the relevance of *Wusa* to the fate of foreign banking in China is crucial not just because of the drop in HSBC's circulation volumes or share prices. As indicated above, the 1925 events are seldom mentioned by name—let alone analyzed—in the literature on British banking in Asia.[37] *Wusa* impacted on British business in China in great many other ways that an article focusing on banknote issuance can only point to briefly. Suffice it to note here that the *Wusa* Movement and its reverberations in south China ushered in a new era for British business in the region. Though an integrative account is yet

33. On the boycott of British goods in 1925–1926, see, for example, Cochran, *Big Business*, 177–178.

34. See Bills of Lading, October 8, 1924 to February 11, 1925, in HSBC GA SHG LEDG 294.

35. Share prices in Shanghai and London are based on the *North-China Herald* and the *Financial Times* respectively.

36. 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, "Urban Mass Movement," 863.

37. See, for example, King, *The History*, Vol. III, 62–63; surprisingly enough, the May Thirtieth Incident does not even appear in the index to King's tome.

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Table 1 HSBC Note Circulation in China through 1925 (Dollar-denominated Notes Only)

	Jan	Feb	May	Jun	Jul	Aug	Oct	Nov
Shanghai	3,604,060	3,426,060	3,645,060	3,169,286	2,133,060	1,877,060	—	—
Beijing	498,525	491,060	—	—	—	142,050	—	—
Tianjin	324,405	328,405	—	—	186,177	130,577	104,805	101,402
Yantai	118,536	101,555	—	—	—	97,230	—	—
Hankou	63,980	59,980	—	—	—	38,280	—	—
Xiamen	963	963	—	—	—	756	—	—
Fuzhou	—	660	—	—	—	660	—	—

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.

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to be compiled, a few discrete studies suggest that virtually no British firm was spared. British American Tobacco (BAT), for example, saw its cigarette sales in China halved during 1925–1926. Unlike HSBC, much of BAT's China operations lay in the hinterland, beyond the bailiwick of extraterritorial rights. After 1927, BAT therefore took a much more conciliatory stand toward the KMT than HSBC, eventually agreeing to forward tax payments to the KMT in return for political protection.[38]

Granted, the mid-1925 drop in HSBC's note circulation volume in Shanghai would have merely represented 0.3 percent diminution of HSBC's global liabilities.[39] Yet banknote volume fluctuations make for one of multiple threads in the *Wusa* storyline. Longer-term implications for British business are not hard to trace.

Students of the period should bear in mind that the KMT's rule over China, which 'had gained in feasibility' as a direct result of the turnaround in public opinion during the 1925–1926 disturbances, put an end to one of the Bank's main sources of revenue: loans to successive Chinese governments.[40] Fragmentary data notwithstanding, recent work by business historian Yasutomi Ayumu indicates a drastic diminution in mainland China's share of the Bank's business following the KMT's rise to power. In 1913, for example, HSBC's Shanghai branch accounted for 22 percent of total balance sheet assets. By 1941, Shanghai's share had dropped to just 9.5 percent.[41]

38. On BAT during *Wusa*, see Cochran, *Big Business*, 177–178; Cox, *Global Cigarette*, 186–188, 190 and cigarette sales figures for China in Appendix 4(c); Rigby, *May 30*, 142–146. On the difficulties other British businesses during *Wusa*, see, for example, Mackenzie, *Realms of Silver*, 236–237; Horesh, "Between Legal and Illegal"; Wright, *Coal Mining*, 130. Contrary to what one might infer from Geoffrey Jones' observation (quoted above), Cox's *Global Cigarette* suggests that during the interwar period, popular nationalist opposition to British business was more intense in China than in India (233–240).

39. HSBC's mainland China note circulation had stood at approximately $4.4 million on the eve of *Wusa*, but dropped to $2.2 million by late 1925 (see table 1). HSBC's total balance sheet stood at $703.8 million in late 1925 (see King, *The History*, Vol III, 126, Table 2.1).

40. On *Wusa* as a movement which paved the way for the KMT's takeover of China, see, for example, Van der Ven, *War*, 85. Over the Nanjing Decade, the KMT Government refrained almost completely from borrowing money through foreign banks to the detriment of HSBC in particular. See, for example, Paauw, *Chinese Public Finance*, 332–333, 336

41. See Yasutomi, Honkon Shanhai ginkō, Figure 2, 29 and Table 10, 40. King's own data (*The History*, Vol. III, 186–194) implicitly suggests that the onset of KMT rule in 1927 ushered in a decade of 'falling profits' for the HSBC as a whole.

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What is more, the Bank was headquartered in Hong Kong. British diplomatic sources bemoaned the havoc, which the *Wusa* Movement had wrecked on the Colony's economy in 1925–1926. King himself portrayed the British banks operating in the region as enterprises uniquely dedicated to the finance of trade between Britain and China via Hong Kong.[42] It is, therefore, peculiar that he should completely ignore events that had been 'paralysing' British trade in south China and turning the Colony into a 'Ghost Town' through 1925–1926.[43]

The strongest qualitative evidence on the impact of the May Thirtieth Movement is found in HSBC's own records. The *Bank*'s 1925 annual report, for example, described *Wusa* as nothing short of 'momentous' and dubbed the boycott of British businesses as a "blind crusade against the foreigner and foreign rights in China."[44]

In-house correspondence is more revealing still. 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, which was under his custody. Barlow, for his part, advised Stitt to conserve his cash tightly due to the long anti-British strike that he now anticipated.[45]

By early July, the gravity of the situation in Shanghai had finally registered with Barlow, who sent a telegram to 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 . . ."[46] On 18 July 1925, the *Beijing ribao* reported on a massive run that had occurred on HSBC's Shanghai branch:

Since a popular boycott was declared on the British-owned HSBC, Shanghainese 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

42. See King, "Extra-Regional Banks," 380–381.

43. On Hong Kong's economic crisis through 1925–1926, see Carroll, *Edge of Empires*, 133–135.

44. HSBC's annual report for 1925 was reprinted in *The Bankers Magazine*, Vol. CXXI, 787–796.

45. Barlow to Stitt, June 19, 1925, in HSBC GA GHO 13.2, folio 28.

46. Barlow to Stitt, July 3, 1925, in HSBC GA GHO 13.2 folio 50. Italics added.

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teeth with crucial assistance from ... avaricious [Chinese] banks, to the extent that it could breathe alive again.[47]

The mainstream Chinese press in Shanghai conspicuously lacked reports on any dramatic anti-British bank stampede, and the fact that only a Beijing-based daily raised the allegations against 'collaborative' Chinese banks weakens their credibility. 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 the 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 foreign bank notes spread across Shanghai, there has been unusually heavy traffic of clients wishing to withdraw funds from foreign banks or redeem foreign bank notes. The HSBC was worst affected, [with clients streaming to withdraw funds]... from morning to noon without respite. The predicament of HSBC is now extremely precarious.[48]

Either way, Barlow was so alarmed at the anti-British wave that he recommended the immediate withdrawal of all smaller treaty-port note issues in China, because these were "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."[49]

Barlow knew, of course, what he was talking about. Shortly before the *Wusa* disturbances spread to the Pearl River delta, the Hong Kong Government had imposed martial law and severe restrictions on note redemption, silver withdrawals, and capital movement between the Colony and the mainland.[50] This emergency legislation was a precondition set by HSBC for the grant of a loan on the order of HK $6 million designed to bail out smaller banks in the Colony. In stark contrast to the situation prevailing in Shanghai, Hong Kong Government restrictions effectively turned British bank notes into the

47. Cited in Pan Liangui, *Shanghai,* 126–127; the Chinese bank implicated had been rumoured to be *Siming yinhang* but it promptly denied the allegations. See Du Xuncheng, *Zhongguo,* 84–86.

48. See *Rexue ribao,* June 7, 1925, 2; cf. Appendix 2.2.

49. Barlow to Stitt, July 3, 1925, in HSBC GA GHO 13.2 folio 50. Italics added.

50. See Ku Hung-ting, "Urban Mass Movement," 851; *ShengGang da bagong ziliao,* 316; Fung, *Diplomacy,* 49; Li, *Xianggang da shi ji,* 66–67; Orchard, "China's Use of the Boycott," 257–258.

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only liquid means of payment in the Colony, thereby propping up circulation volumes there through 1925–1926.[51]

A permanent shift in the Bank's strategy with regard to its mainland issue occurred during the same period. On 13 July 1925, Stitt reported that the cash position of the branch was improving, and that he might not have to draw on emergency reserves.[52] 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.[53]

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 notes in all mainland branches in anticipation of more runs.[54] And on August 17, he imposed a cap of $2 million on the Shanghai circulation volume.[55] Apart from helping to stave off future runs in Shanghai, Barlow also hoped that the decreased circulation volume in China would free up the silver reserves that could be the used to meet claims on the Bank in the Colony or, alternatively, underpin an increase of note issuance there.[56]

By mid-1926, the impetus of the disturbances had clearly begun to wane across the mainland.[57] The subsequent period saw scattered, intermittent conflicts between locals and expatriates in some of the outports that never degenerated into a nationwide backlash. Nonetheless, the enormity of the past year resonated as far as Whitehall, as a gradual transition in Western attitudes toward China set in. One of most succinct pronouncements that capture this transition was perhaps Lloyd George's: "Chinese nationalism is essentially a just cause".[58]

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.[59]

51. In fact, the *Bank*'s HK $ circulation volume rose through 1925–1926 because of the moratorium on coin withdrawals and concurrent run on 'native' banks. For background details, see *South China Morning Post*, July 2, 1925, 2.
52. Stitt to Barlow, July 13, 1925, in HSBC GA GHO 13.2, f. 71.
53. Stitt to Barlow, July 16, 1925, in HSBC GA GHO 13.2, f. 81.
54. Barlow to Stitt, August 5, 1925, in HSBC GA GHO 13.2, f. 111.
55. Barlow to Stitt, August 17, 1925, in HSBC GA GHO 13.2, ff. 121–122.
56. Barlow to Stitt, July 24, 1925, in HSBC GA GHO 13.2, f. 83.
57. *The Foreign Trade of China*, 1.
58. Lloyd George, "Foreword," 10.
59. Barlow to Lowson, June 4, 1926, in HSBC GA GHO 13.3.

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In the years to come, Whitehall came to question the views of the British business community in China. 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, and that HSBC would have to comply.[60] However, far more stringent demands were to be posed by the new nationalist government in the years to come.

The Nanjing Decade (1927–1935)

As the transition in Britain's policy toward China was taking shape, the Northern Expedition (*beifa*) was underway, invigorated by the sentiments sown in *Wusa*. The Expedition saw the nationalists pushing from their stronghold in south China toward Shanghai between 1926 and 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 Kuomintang Chairman—to claim the centerstage 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 Chinese Communist Party (CCP) and its local sympathizers was the cue Whitehall needed to endorse its new agenda in the region.[61] 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 the HSBC and other British banks, this meant trouble because their operation in China hinged on privileges that extraterritoriality had guaranteed since 1842 (e.g., exemption from Chinese tax and immunity from Chinese monetary regulation). The British bankers in Shanghai dreaded the challenges to the status quo that a new nationalist government could pose. When its sway was prescribed to Guangdong, the Kuomintang introduced tough measures to discourage people from using HK $ notes or dealing with foreign banks in general.[62] If the nationalist thrust was to assert itself over a larger

60. Head Office to Lowson, August 24, 1926, in HSBC GA GHO 13.3.
61. Isaacs, *Tragedy*, 175–185; Dayer, *Finance and Empire*, 266–269.
62. See HSBC GA F1.1 ("The Note Issue"/Based on an Article in the *Canton Gazette*, 11 March 1927); Li Jianmin, *Wusa can'an*, 207–208; see also, Kuomintang

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swath of the country, British banks' domination of the Chinese foreign exchange market, and their ability to mobilize resources locally would be jeopardized.

Nonetheless, the degree of unification that Kuomintang territorial expansion ushered in proved much less of threat to foreign banks than first thought—in their first few years in power the nationalists were distracted by residual warlordism, and somewhat hesitant with regard to the foreign presence. Monetary fragmentation prevailed, while the enthusiasm that had stoked up the *Wusa* Movement had been consumed by the 1927 killing of hundreds of labor activists in a KMT crackdown on the CCP.

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.[63] HSBC mainland circulation figures before, through, and after this transition period are summed up in table 2.

Table 2 HSBC Mainland Branch Circulation, 1925–1933 Unit: Silver Dollar

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

Sources: HSBC GA GHO 96.2; PRO FO 371/13 193, FO 371/18 130; PRO Figures are in HK $ units.

The Bank was still wary of new runs on its notes, but it did not contemplate renouncing the China issue altogether. Table 2 shows that, while HSBC was gradually retiring notes in the outports, it clung to its considerable Shanghai issue. In late September 1927, Lowson even pressed Head Office to reconsider its positions, and allow him to

Provincial Government and Chinese Strike Committee reports in *ShengGang da bagong ziliao*, 681–687, 731–732.

63. See anonymous handwritten remark in a Shanghai banknote ledger, which made reference to a semiofficial letter that had apparently been sent from Head Office on August 10, 1927, advising the branch that the mainland circulation cap was placed at $2.5 million—in HSBC GA SHG LEDG 294.

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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 significant 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.[64]

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 specifically addressed the mainland rather than Hong Kong for the very first time, suggests that foreign banknote-issue prerogatives were becoming a diplomatic 'hot potato' soon after the inauguration of the Nanjing Government.[65]

The political climate in 1927 was reflected in a rare article published in the otherwise moderate organ of the Chinese bankers' association, the *Yinhang zhoubao.* Aptly titled 'The Problem of Clamping Down on Foreign Bank Notes' (*Qudi waichao wenti*), the article offered one of the first analyses of how nascent Kuomintang 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.[66]

The large number of pertinent press clips in the Bank's records suggests that it was closely monitoring the popular sentiments against its note issue in China. Interestingly, the cause of unifying national currency under Kuomintang auspices does not seem to have been openly challenged by the Chinese media or Chinese private bankers. Arguably, the experience with heavily discounted banknotes during the Beiyang era, coupled with the nationalist upsurge and the precarious standing of private enterprise in China, had left little space for an intellectual debate over the merits of 'free banking' to emerge. Chinese private banks, in turn, seem to have been coaxed into complying with monetary unification with 'sweeteners'. For example, KMT-backed

64. See, Head Office to Lowson, September 20, 1927, in HSBC GA GHO 13.4, f. 274; 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 ...".

65. A. Eugenes at Head Office to Lowson in Shanghai, January 4, 1928, in HSBC GA GHO 13.4, ff. 376–379.

66. See article by Jin Lüqin (Deputy General Manager of the Bank of Communications) in *Yinhang zhoubao*, Vol. 11 No. 13, April 12, 1927, 1–19.

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banks were prepared to supply notes to smaller private banks against the deposit of securities but at a *zero* interest charge. Returns accruing from those securities were paid back to the smaller banks.[67] By opting to circulate KMT-backed, rather than their own notes, these smaller banks could therefore eschew printing costs, while retaining the interest earned from securities and fiduciary note issuance.

In February 1930, Head Office wrote to Lowson that reports in the Chinese press on a dramatic increase in foreign bank note circulation were "pure invention" and that the quantity of such banknotes was probably "infinitesimal" compared with Chinese bank notes.[68] 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".

To what extent, then, were Chinese bank notes taking centerstage 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]".[69] Hubbard estimated that in 1930 the total circulation volume of Chinese bank notes—of which five government backed banks were the principal constituents—was $290 million, whereas foreign bank notes amounted to only $5 million.[70]

The universalization of notes by Kuomintang-backed Shanghai-based banks, and the tightening of foreign bank supervision, roughly coincided with Japan's annexation of Manchuria (1931). This annexation 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.[71] In January 1932, Hubbard envisioned a settlement whereby Japan could be persuaded to recognize Chinese sovereignty in Manchuria in return for Kuomintang moves to curb

67. Chan, *Business Expansion*, 146–149.

68. Head Office to Lowson, February 10, 1930, in HSBC GA GHO 13.6, ff. 236–237.

69. Hubbard to Grayburn, January 26, 1931, in HSBC GA SHG I 52.1.

70. Ibid.

71. On the spread of Chinese banknotes and foreign bank oversight, see, for example, *Gongshang banyuekan*, March 19, 1931, 12.

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anti-Japanese demonstrations in Shanghai and to repay the controversial Nishihara loans.[72] Either way, Hubbard was pleased to report that, in view of its conflict with Japan, the Kuomintang 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 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 extraterritoriality.

Hubbard's dalliance with *Weltpolitik* betrays ignorance of the changing balance of power in Shanghai's financial markets, where HSBC was being progressively eclipsed. A second glance at figure 1 will remind readers that in 1915, HSBC accounted for, according to its own data, no less than 42 percent of Shanghai's silver stock. Yet, 17 years later, fairly reliable Central Bank of China data put the figure at just 18 percent. The full dataset is illustrated in table 3 below:

Table 3 Bank Silver Stocks in Shanghai, 1932 Year-end

Bank/s	Tael (Million)	Share (%)
HSBC	52.3	18
CBIAC[a]	17.4	6
Other British[b]	2.9	1
Chinese modern	113.3	39
Chinese traditional	40.7	14
Japanese	29.1	10
American	17.4	6
European	17.4	6
Total	290.5	100

Source: *Zhongyang yinhang yuebao* ['Central Bank Monthly'] Vol. I No. 5 (Dec. 1932), 894–895.
[a] CBIAC is a notional acronym denoting the British-owned Chartered Bank of India, Australia, and China (Est. 1853).
[b] British banks that entered the Chinese market in the course of the *late* 19th or early 20th centuries did not attain note-issue prerogatives. Neither did they challenge the supremacy of CBIAC and HSBC. These entrants included 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, *100 Years*, 32–33, 92, 108; Jones, *British*, 77–78, 158–159; Orbell and Turton, *British Banking*, 203–204, 425.

72. Hubbard to Grayburn, January 11, 1932, in HSBC GA GHO 98; Nishihara Kamezō 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 Lai Xinxia, *Beiyangi*, Vol. I, 509–552). 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 the Nanjing Government policy was the refusal to recognize warlord-era debts to the Japanese. See, for example, Paauw, *Finance*, 283, 294–295.

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The makeup of Shanghai's banking silver stocks should be looked at in historical perspective. That Chinese financial institutions accounted for over half the silver stock by 1932 (table 3) is indicative of the pressure which the KMT put on the foreign banking sector. But there had been other important factors at play earlier: the impact of World War I on Shanghai was such that Chinese industrial enterprise thrived at the expense of foreign imports. Financing this industrial expansion underpinned the growth of Chinese modern banks in the city.[73]

The foreign financial sector was beset by numerous crises through much of the same period. In 1914, the Allies forced the Deutsch-Asiatische Bank branches in China to shut down. These branches were barely able to resume their operation in 1918. The Russo-Asiatic Bank, nominally a Sino-Russian joint venture, but effectively a French-owned firm, had to be reconstituted in the wake of the Bolshevik Revolution in 1917, and ultimately failed in 1925.[74] Also, in 1919, anti-Japanese protests broke out across much of north China as a result of the outcome of the Treaty of Versailles, crippling Japanese imports and Japanese local bank note circulation.[75] Crises in the foreign banking sector persisted during the interwar period. 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.[76] The Chinese-American Bank of Commerce, another US joint venture, suspended business in 1928;[77] and another wave of anti-Japanese protests in 1928 crippled the Sino-Japanese Exchange Bank of China (est. 1918). Based in Tianjin, the Sino-Scandinavian Bank (est. 1921) suffered a severe run on its notes in 1928 and closed its business shortly thereafter.[78] Arguably, the failure most inimical to the reputation of foreign financial institutions in Shanghai occurred in 1921. This was when the Banque Industrielle de Chine had to suspend the convertibility of its Shanghai notes into silver due to overprinting. At the last moment, Chinese banks came to its rescue and redeemed the notes.[79]

73. Yang Yinpu, *Shanghai Jinrong Zuzhi*, 385–386; Hong Jiaguan, *Jindai Shanghai Jinrong*, 69–71.

74. See Quested, *Russo-Chinese Bank*; King, "Extra-Regional Banks," 373.

75. See *Wusi Yundong Zai Shanghai Shiliao Xuanji*, 212–213, 689–692.

76. Xu Jiqing, *Shanghai*, 138–140; Ding Richu, *Shanghai Jindai Jingji Shi*, Vol. II, 67–68, 101.

77. On the Chinese-American Bank of Commerce, see Pugach, *Same Bed*.

78. See Ji, *History*, 157–163.

79. Chen Shao-teh, *Étude*, 293–296; Bergère, "China Treaty-Port Economy," 240–242. On French banking ventures in China, see also Bonin, "Les banquiers

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HSBC's diminishing share of Shanghai's silver stock similarly resulted from developments in the wider arena. KMT monetary and banking reforms proceeded with a vengeance during the early 1930s, dispelling any illusions foreign bankers might have entertained about a respite in the campaign against their treaty-port privileges. To be sure, HSBC executives continued to express some scepticism toward the feasibility of monetary unification, but were now more alive to the intensity of the Chinese nationalist sentiments, which informed the KMT agenda of nation building.

Nowhere was this more evident than in the way the Bank reacted to Kuomintang preparations for the demonetization of the tael in mid-1932. In July 1932, for example, Head Office informed F.B. Winter, the Sub-Manager in Shanghai, that it was opposed to the abolition of tael silver currency because of fears that government-minted dollars would be debased soon afterwards.[80]

On 16 March 1933, shortly after the tael's abolition 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 they might foreshadow attempts to depreciate the silver contents of the Chinese currency.[81] 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 [saw] that silver dollars are kept to standard, I do not think [f]oreign banks have a leg to stand on in opposing their wishes."[82] Grayburn's conciliatory tone toward the reform may have inevitably ensued from the abolition's resounding success. But, perhaps more importantly, his wording reflected the astute manner in which Kuomintang officials cajoled foreign banks into backing the reform by offering them seats on the Advisory Board that was to oversee its long-term implementation.[83]

français," 9–10, and contemporary sources quoted in *Zhonghua minguo huobishi ziliao*, Vol. I, 894–897.

80. Head Office to Winter, July 18, 1932, in HSBC GA GHO 13.8, ff. 58–59.

81. Cassels to Davidson, March 16, 1933, in HSBC GA SHG I 52.1.

82. Grayburn to Henchman, April 10, 1933, in HSBC GA GHO 13.8, ff. 333–334.

83. 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, May 11, 1933, in HSBC GA SHG I 52.1; see also, Chinese Central Mint Advisory Committee report, August 8, 1933, in HSBC GA SHG I 61.

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The smooth abolition of the tael was carried out in the face of the persistent scepticism shown by the expatriate British community in Shanghai; it demonstrated in action rather than words the Kuomintang's resolve to work toward a uniform national currency. Compounded by rising world silver prices, the reform heralded an *irreversible* downturn in foreign bank note circulation volumes in Shanghai.

In early 1934, the city's leading expert on currency, Edward Kann, estimated paper money circulation as shown in table 4.

Table 4 Paper Money Circulation in Shanghai; Unit: SH$ Million

	Dec. 1931	Dec. 1932	Dec. 1933
Foreign banks	3.7	3.3	2.4
Chinese banks	271.3	284.7	350.6

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

Kann's estimate dovetails with quantitative data compiled by scholars more recently. Sheehan's data, for example, suggest that Chinese bank note circulation in Tianjin rose from $38.8 million in 1928 to $46.5 million in 1933.[84] Figures compiled by Cheng Linsun suggest that Chinese bank note circulation totalled $452 million in 1931, as opposed to $578.5 million in 1933.[85] Tellingly, Cheng's time series indicates that the largest percentage increase in the circulation of Chinese bank notes between 1920 and 1935 occurred in 1925 (+35 percent), i.e., when British banks were being lambasted.

Competition from Chinese modern banks of issue clearly impinged on foreign bank business, particularly note issuance, by 1933. Only two decades prior, the balance of power was very different indeed. In 1913, China's first modern bank (The Imperial Bank of China) claimed a total note circulation of $1.78 million. That year, HSBC's circulation volume in Shanghai *alone* reached nearly twice that figure ($3.5 million).[86] In the interim, a number of observers noted that new Chinese banks of issue were feverishly emulating foreign note designs

84. Sheehan, *Trust*, 189.
85. Cheng, *Banking*, 252–253.
86. For Imperial Bank of China data, see Feuerwerker, *Industrialization*, 240. For HSBC data, see figure 2 above. Precisely aggregating Chinese bank note circulation volumes is difficult as China's modern banking sector was fairly diffuse even as late as 1936. See Sheehan's, Myth and reality.

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and disbursement techniques, hence the rapid spread of Chinese bank notes.[87]

In 1934, foreign bank note circulation volumes were affected by an exogenous shock yet again. Pressured by regional mining interests in Congress, the Roosevelt administration embarked on its Silver Purchase Policy, which was designed to lift America out of recession.[88] 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 its exports to the west slashed due to an adverse exchange rate. Worse still, China's money supply was being depleted because the US price of silver edged above the domestic exchange value of the Chinese silver dollar, resulting in incessant waves of silver exports from Shanghai to America either directly or via London.[89] The blow to 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, more importantly, it made simple business sense to buy silver dollars in Shanghai for US dollars or other foreign currencies and melt them into bar silver. China was thus belatedly drawn into the whirlwind of the Depression.[90]

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 the USA 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 thrown into question.

87. Wagel, *Chinese Currency,* 165 and Peng Xinwei, *Zhongguo,* 673–675.

88. Friedman and Schwartz, *Monetary History,* 483–492.

89. See *China Press* report entitled 'Silver Rush Begins', August 22, 1934, in HSBC GA SHG I 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, *China,* 20–27.

90. Slater, *China,* 3–14; Sheehan, *Trust,* 163. Based on purely quantitative analyses, some economists have argued that the US silver policy did not affect China's economy radically in the 1930s. See the exchange between Friedman (Roosevelt and China) and revisionist work by Brandt and Sargent, "Interpreting New Evidence." See also, Rawski, "Milton Friedman," and more recently Lai and Gau, "Chinese Silver". E. J. Davies' observation on the severity of the silver outflow from China (cited below) does not seem to lend much support to these revisionist views.

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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 top Kuomintang officials Kong Xiangxi [H. H. Kung], Song Ziwen [T. V. Soong] and Generalissimo Jiang Jieshi.[91] Though they were driven by different personal agendas, the three concurred that China should ride on the momentum afforded by US policy to divorce Chinese currency from silver. The move was designed to assert greater government latitude in the monetary realm, and to reap a bonanza from the sell-off of the Chinese silver stock while world prices were at their highest for decades.[92]

HSBC soon got wind of the intense deliberations that Kuomintang Finance 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."[93] 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. In November 1934, Grayburn's newly appointed deputy, E. J. Davies, wrote begrudgingly to Henchman from Head Office, that foreign banks were busy smuggling large quantities of mainland silver via Hong Kong, and that the British-run Chartered Bank was prominent amongst the offenders. But arbitrage resulted in increased profits for foreign 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."[94] It may well have been those foreign bank practices that sparked a fresh wave of resistance against the prevalence of foreign bank notes and provoked the Kuomintang

91. On February 20, 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 an attempt to persuade him to abrogate the Silver Purchase Policy—in HSBC GA SHG I 52.

92. On the different support base and varying motives driving Jiang, Kong and Song, see Coble, *Shanghai Capitalists*, 109–115; Fewsmith, *Party*, 187–195.

93. Grayburn to Henchman, October 22, 1934, in HSBC GA GHO 13.9.

94. Davies to Henchman, November 22, 1934, in HSBC GA GHO 13.9.

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Government to take action.[95] In spite of the fact that foreign bank note 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 February 28, 1935, for example, the Shanghai English language daily, *China Press*, published an article under the heading "Native Bankers Renew Agitation Against Note Issue by Foreign Banks". The article reported on several petitions presented to the Ministry of Finance against HSBC and other foreign banks that 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 foreign bank notes as "... non beneficial to the country's economic fibre".[96] At the same time, the *Bank* began to realize that Chinese central banking was making impressive headway, thereby challenging the legitimacy of the foreign banks' treaty-port privileges. W. C. Cassels indicated in a letter to O. J. 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.[97] But perhaps the most important factor that informed the *Bank*'s downbeat prognosis of its mainland business was the rapprochement between Whitehall and the Kuomintang at the expense of British expatriate interests. On January 14, 1935, for example, Grayburn informed Henchman that he was identifying signs of distrust toward the Bank amongst British Treasury circles.[98]

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 nationalized silver stock for sale in America—including silver that was yet to be advanced by foreign

95. On the linkage between the outflow of silver and Chinese alarm at the continued prevalence of foreign bank notes, see Mao Chih-Li, *Zhang Jiao'ao*, 444–447.

96. See *China Press* article, February 28, 1935, clipped in HSBC GA SHG I 52.1; a similar story was published by the Chinese language daily, *Shehui wanbao*, on February 22, 1935, and translated into English for executive perusal. In HSBC GA SHG I 52.1; see also, article in the February 25, 1935 issue of *Shen bao* (7), which suggested that extraterritoriality 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 foreign bank note volumes had begun decreasing after *Wusa* 1925.

97. Cassels to Barnes, February 6, 1935, in HSBC GA SHG I 52.1.

98. Grayburn to Henchman, January 14, 1935, in HSBC GA GHO 13.10.

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banks.[99] The reform introduced a Chinese legal tender backed by US dollar and sterling reserves, thereby ending nearly a century during which British banks issued notes at will on Chinese soil.

Japanese aggression eventually brought China, Britain, and the USA closer together. Between the late 1930s and the 1940s, British and American banks—including HSBC—supported successive Chinese Government currencies through a Stabilization Fund.[100] Yet, the legacy of *Wusa* and the Nanjing Decade was not entirely abandoned. At least two financial tenets of the Kuomintang platform prevailed: foreign banks were never allowed to issue banknotes in China again, and their domestic client base was irreparably curtailed. The rocky relationship between the KMT and foreign banks in the early 1930s can be best understood in the context of the rise of territorial currencies on the world scene. Unlike the European concept of national sovereignty whose roots date back to the Peace of Westphalia (1648), territorial currencies were a much more recent phenomenon, which emerged in Western Europe only in the mid-nineteenth century.[101] The idea of 'one nation–one currency' then radiated to the USA, Japan, and parts of South America. China was, in fact, one of the last few major countries of the world to eradicate free banking in 1935.

As Eric Helleiner cogently observed, the rise of 'territorial currencies' had been closely linked with the formation of the modern nation-state, although this pattern has been "remarkably understudied in contemporary academic literature."[102] HSBC's loss of its China note-issue prerogatives formed, then, a part of a much wider *global* trend. The souring of relations between the HSBC and Whitehall after *Wusa* should be understood in this context: between 1920 and 1944, the Bank of England advocated the creation of central banks with a note issue monopoly in all countries that did not have them yet—China included. Central banks in developing parts of the world were viewed in London as promoting economic stability and British soft power, even when this meant losses to British commercial interests overseas.[103]

The rollback of foreign banking during the mid-1930s paralleled increasing KMT control of the Chinese banking sector. That neither

99. On this and other aspects of the *fabi* reform, see *Zhonghua minguo huobi shi ziliao*, Vol. II, 240–263; the initial amount of silver pledged for sale in the USA was 100 million ounces.

100. On this period, see for example, Young, *China's Nation-Building Effort*.

101. Helleiner, *Making*, 31–41. Cf. Cohen, *Geography*, 24–26, 32–34.

102. Helleiner, *Making*, 100, 151–157.

103. Ibid., 146–151.

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development antagonized Whitehall should again be seen in *global* context. Largely as a result of the Great Depression, this era was characterized by growing antimarket sentiments in Europe, the USA, and Japan.[104] Arguably, KMT moves to wrest control of China's banking sector had been goaded, in part, by what Rajan and Zingales described as Japanese Government intent on 'suppressing' small Japanese commercial banks in order to direct funds to its colonial foray into north China in the mid-1930s.[105]

To date, Selgin's appears to have been the only attempt to explain parts of the Chinese experience with free banking, that is, the period preceding the establishment of a government note-issue monopoly in 1935. Focusing on the premodern Chinese financial sector, he argued that free banking in one locality (Fuzhou) "worked well".[106] Still, to begin uncovering the bigger picture, Chinese modern banks, foreign banks, and multiple other localities must be examined in depth. For these reasons, Selgin concluded that a more comprehensive study of the Chinese free banking experience in the Republican era "should prove a most worthwhile undertaking."[107] The present study was conceived precisely toward that end. It shows, nonetheless, that this experience was replete with warlord monetary excesses, foreign bank failures, and nationalist boycotts.

Conclusions

This article examined HSBC's banknote issue during China's Republican period. It demonstrated that note circulation volumes on the mainland were at their highest through the Beiyang Government tenure, and ascribed the demand for such notes to warlord monetary excesses. In mid-1925, however, HSBC's China issue took a critical—and from the Bank's standpoint—entirely *unexpected* battering as a result of anti-British agitation during the May Thirtieth Movement. After a partial and brief recovery between 1926 and 1927, HSBC circulation volumes in China were again in decline as a consequence of three principal factors: voluntary capping due to HSBC executives' fear of renewed boycotts; competition from government backed banks

104. Rajan and Zingales, *Saving Capitalism,* 206–211. See also Idem., "The great reversals."
105. Rajan and Zingales, *Saving Capitalism,* 216–219.
106. Selgin, "Free banking," 104.
107. Ibid., 120.

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of issue; the Kuomintang's agenda of monetary unification and its resolve to stamp out all foreign bank notes, which came to a head with the proclamation of the *fabi* reform (1935).

In Barlow's parlance, the May Thirtieth Movement presented the biggest challenge HSBC had faced over "many a long day." This article has drawn on the observations made by Barlow and his colleagues, as well as on the Bank's mainland circulation figures, in an attempt to correct the scant attention paid to *Wusa* in the literature on the history of British banks in Asia. Here, *Wusa* is framed as a critical link in a long chain of events, which helped the Kuomintang forge Chinese monetary unification and central banking in line with other parts of the world. The *Wusa* boycott of British banks may not have been protracted, but its longer-term political, economic, and psychological ramifications cannot be understated.

From the evidence presented above, the *Wusa* Movement of 1925–1926, and its reverberations in south China, emerge as a veritable turning point in Sino-British relations. Many banking historians have downplayed this turning point to the extent that Chinese agency has been all but expunged from the storyline. Citing both qualitative and quantitative sources, this article has outlined what scholars interested in the interplay between enterprise and society in China might learn from *Wusa*:

(1) Statehood, nation building, and monetary reform were inextricably interwoven in Republican China in line with other experiences around the world.
(2) Free banking inflamed Chinese nationalist sentiments, because it was associated with foreign bank privileges, warlord inflationary policies, and the enfeeblement of central authority.
(3) *Wusa* radicalized public opinion, thereby facilitating the KMT's rise to power.
(4) Drawing on the legacy of *Wusa*, the KMT won support for currency unification from both domestic banking circles and Whitehall. This support sealed the *success* of the KMT monetary reform in the face of foreign bank opposition.
(5) The legacy of *Wusa* pitted foreign banks further against the KMT Government over issues like public debt, resulting in a diminution of British banking operations in China. In contrast, British manufacturing companies like BAT, which had proven more adaptable to the KMT's political agenda, recovered from *Wusa* by the early 1930s.

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(6) The business lost by foreign banks in China during the 1930s was rapidly taken over by the Chinese domestic banking sector.

Because HSBC was by far the most important foreign bank in China during the prewar period, the highs and lows of its note circulation reflect the transition from intensifying monetary fragmentation in the early Republican period to effective central banking reforms during the Nanjing Decade. HSBC circulation figures provide a useful barometer with which to reassess a whole raft of themes which have long engaged economic historians of modern China: the mobilization of anti-foreign boycotts, the rise of modern Chinese banking, the disastrous impact of the 1934 US Silver Purchase Act on the Chinese economy and—last but not least—the efficacy of the Kuomintang's monetary policy.

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