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Between Legal and Illegal Tender

The Chartered Bank and Its Notes In and Around China, 1864–1939

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Using recently declassified archival material pertaining to the Chartered Bank of India Australia and China, this article foregrounds quantitative evidence that sheds new light on the history of British banks in Asia. It shows that Hong Kong came to play a critical role in the bank's note issue strategy after the Straits Settlements had moved off the silver standard in 1906. Locally denominated notes issued on mainland China complemented the Hong Kong issue. However, their circulation volume dropped dramatically during the anti-British boycott that followed the May Thirtieth Incident (1925).

Keywords: *The Chartered Bank; note issue; overseas banks; currency; paper money; HSBC; May Thirtieth*

This article is primarily aimed at explaining the long-term note circulation patterns of what had become, by the 1910s, one of the leading British financial institutions in East Asia: the Chartered Bank of India Australia and China (hereafter CBIAC). The bank's note circulation figures will then be used as a preamble to a broader discussion of the role that British overseas bank notes played in the Chinese economy before World War II. By assessing quantitative evidence, the study finds linkages between CBIAC's principal branch circulation volumes, the political climate in China, and monetary

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evolution in East Asia. It argues that Hong Kong was crucial to the overall growth and durability of British overseas bank note circulation, while emergent popular movements and government reform severely impinged on local circulation volumes in China during the 1920s.

Why should the legacy of British bank note issuance in China be reevaluated? Although histories of individual British overseas banks are plentiful, a conspicuously large swathe of them consists of commissioned narratives that were not designed to provide a comparative analysis—for example, Frank King's otherwise useful four volumes on the Hongkong and Shanghai Banking Corporation (HSBC) (King, 1987). When it comes to the smaller CBIAC or the Chartered Mercantile Bank of India, commissioned histories and accounts by former bank staff members are almost all we have to build on (Mackenzie, 1954; Muirhead, 1996). At the other end of the spectrum, accounts by Chinese authors of overseas banks in China are still replete with Maoist dogma, associating almost all forms of foreign economic presence with wanton exploitation (Wei, 1955: 207-13; Peng, 1958: 556-59; Wang, 1983: 145-52).

Historians who look further afield to find out more on the prevalence of overseas bank notes in China's economy are still faced with two starkly divergent bodies of literature in English and Chinese. While scholars like Rawski or Tamagna tended to confine the import of foreign bank note circulation in pre-war China to littoral areas (Rawski, 1989: 128-7; Tamagna, 1942: 106-7), Chinese historians often describe this monetary phenomenon as an extensive violation of Chinese sovereignty, which had deleterious effects on all layers of the country's economic fabric (Hong, 2003; Xian, 1958). Here, however, the focus will be on themes that are not elaborated on in either type of literature: namely, the banks' motives for issuing notes and the extent to which political circumstances projected their effects on the circulation of these bank notes in China.

This article proposes a complementary approach to the one applied by Rawski (1989), whereby the significance of overseas bank notes in China is determined not only on the basis of aggregate circulation volumes but also by examining note issuance as a constituent of individual foreign bank liabilities in principal branches. Using recently declassified archival material, this approach will be initially applied to CBIAC (known more informally at the time as the Chartered Bank).[1] However, it is intended that similar analysis of other British overseas banks will follow in the near future so that provisional conclusions drawn here may be better generalized.

First, the article will outline the circumstances in which British and other European overseas bank note issues developed since the mid-nineteenth century. The second section will analyze CBIAC's note circulation pattern in East Asia as a whole. The third and largest section will examine the unique extraterritorial setting that conditioned British bank note issuance on the Chinese mainland, with particular emphasis on Shanghai. Finally, I will try to assess what CBIAC note circulation figures might tell us about East Asia's prewar economy.

British Overseas Bank Note Issuance

Family-owned or joint stock banks issuing notes convertible to bullion and payable on demand were fairly common even in Europe at the beginning of the twentieth century. This phenomenon markedly waned only during the 1930s when central banks were taking charge of money supply across much of the Western world. Notable examples of countries that retained private bank note issues in the early twentieth century include Switzerland and Greece, while in Scotland bank notes are still issued by commercial banks (Schuler, 1992).

Historically, British banking has been made up of two separate constituents: institutions devoted to domestic business and institutions transacting business overseas. To prevent over-competition, the latter were not legally permitted to access retail markets at home—they could accept deposits in London or Edinburgh but not lend or run current accounts for commercial clients there. Consequently, British overseas banking tended to specialize geographically through different groups of founding investors who had firsthand knowledge of specific colonial economies and their respective commodity markets (Bowen and Cottrell, 1997: 107-8).

Nonetheless, the basic rules of governance and restrictions on note issuance applicable to British banks in such disparate countries as Brazil, Greece, and mainland China were standardized by the same set of guidelines, dating back to 1830, that had been devised for the dominions. Drawn up by the British Treasury, these guidelines were commonly referred to as Colonial Banking Regulations (Chalmers, 1893: 27-32). They effectively restricted each bank's geographical deployment and ensured the subordination of business practices to local colonial policies. Adherence to the regulations was a prerequisite that competing British copartnerships, bent on investment in far-flung corners of the empire, had to meet before applying for a royal charter that would bestow on them limited-liability status (Grossman, 2001).

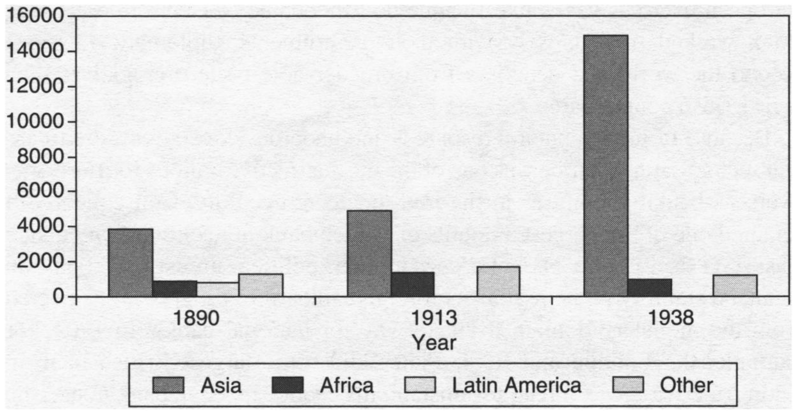
This defining factor contrasted sharply with economic circumstances in continental Europe. Most nineteenth-century French, Dutch, and German colonial banks had sprung from initiatives jointly undertaken by well-established domestic banks and the state rather than by ad hoc groups of investors, thus mirroring a different pattern of economic development than in Britain. As a whole, European overseas banks like Banque de l'Indochine or Deutsch–Asiatische Bank worked more closely with their governments' diplomatic missions around the world and benefited from broader note issue prerogatives than their British counterparts.

Because of its rich natural resources and underdeveloped domestic financial sector, Latin America was one of the most attractive regions for European overseas banking ventures in the mid-nineteenth century. Consequently, it retained one of the biggest amounts of British bank note circulation outside East Asia (see Figure 1). But a decade later, political unrest cast a pall on financial stability in the region, as foreign banks were progressively ejected from the monetary domain to make way for national banks. In 1904, for example, the London and River Plate Bank—the largest British bank in Latin America—was forced to substantially reduce its large bank note issue in Uruguay in favor of the new Banco de la República (Joslin, 1963: 137-38; Bulmer-Thomas, 1994: 179-80).

In East Asia, the legacy of privately funded European banks entrusted with the supply of paper currency in colonies and dominions with varying degrees of official approbation continued in a few cases after World War II and is still in place in Hong Kong SAR (Jao and King, 1990). Such bank notes percolated in large numbers into the few interstitial domains that remained outside European metropolitan suzerainty, quite often passing at a premium against local metallic currencies (Spalding, 1924: 272-73). Around the 1900s, Hong Kong dollar bank notes were, for example, widely used in South China, while Straits Settlements dollar notes had spread all over peninsular Malaya (Schenk, 2000: 739-42; Muirhead, 1996: 224-25).

Initial issues of notes were important as working capital for newly established overseas banks because attracting fixed-term deposits in the dominions, colonies, and concession areas took years and was hampered by competition from older financial institutions. Moreover, in the 1830s banks of issue across the British and French empires were quite often more profitable than mercantile banks. Unlike their British counterparts, French overseas banks rarely had to apply for supplemental charter renewal and normally held legal tender prerogatives in colonial possessions. However, British and French banks usually shared the same charter guidelines relative to their note issues: a 1:3 bullion reserve against notes was considered elementary in Europe during much of the nineteenth century (Baster, 1929: 46-48).

Figure 1
British Overseas Bank Note Circulation, 1890-1938, Unit: GBP (000)



Source: Adapted from Jones (1993: 39, 117, 215).

CBIAC's note issue in East Asia merely dabbed in a modest streak in the multicolor fabric of British, French, German, Dutch, Portuguese, and Japanese colonial currencies anywhere between Batavia and Dairen. It was, nonetheless, of considerable importance in its capacity as "quasi-foreign money," that is, as a local fiduciary instrument in those areas where European dominance was circumscribed by sovereign Asian governments, but where central monetary regulation was haphazard. These areas primarily included the treaty ports of China, Japan, and Siam, where by the late nineteenth century, paper currency denominated in tael, yen, or tical units of account was disseminated by a host of foreign banks *concomitantly* and where no European Power could effectively enforce the paper currency of its preferred banks as legal tender.

During the early twentieth century, British overseas banks not only lost their note issue rights in Latin America but were also stripped of their prerogatives as suppliers of colonial currency in parts of North America, Australasia, and Africa, while in Asia the governments of Japan and Siam severely restricted the latitude of foreign banks operating on their soil.[2] Thus, by the 1910s quasi-foreign bank notes became a predominantly Chinese treaty-port phenomenon, countenanced by the retention of European extraterritorial rights and denominated in a host of local tael or silver dollar units.

The CBIAC Note Circulation Pattern

CBIAC was established in the city of London in 1853 through the provision of a royal charter similar to the one given two years earlier to the first British overseas bank in Asia—the Oriental Bank. The original charter delineated the permissible scope of operations for limited-liability entities but had to be reaffirmed by supplemental charters every ten odd years.[3] Although the bank's full name suggested large territorial dispersion, it chose to focus on Southeast Asia and was soon to become one of the dominant overseas British banks in the Raj (Mackenzie, 1954: 25).

The British Treasury and Colonial Office were at pains to prevent chartered British banks from forming issue monopolies and made sure that private notes did not attain legal tender status in any single territory across Asia. To protect undiscerning bearers, the Treasury often imposed double liability on private bank issues and aimed to confine note values to large denominations (Mackenzie, 1954: 22-24; Grossman, 2001). The Treasury's line quite often conflicted with colonial governors, who were anxious to see money supply in their cash-starved entrepôts increasing without shouldering the administrative and printing costs of paper money.

CBIAC's founder, the renowned economist James Wilson, sought a royal charter that would not only minimize the risks for prospective shareholders but would also authorize the bank to issue notes payable to bearers at any of its overseas branches outside India.[4] Nevertheless, colonial banking regulations enjoined CBIAC—like all other chartered banks—to keep its total note circulation volume below its initial paid-up capital (£500,000). Excess issues were made unprofitable, primarily by subjecting them to a 100-percent reserve requirement. As a matter of strategy, CBIAC would seldom engage in excess issues even when bullion supply was abundant. This practice spared the bank superfluous printing costs and made its cash reserves less vulnerable to sudden runs. Conversely, this strategy meant that any diminution in note circulation volume (below paid-up capital level) would, by definition, wear down the bank's bullion resources and impinge on its profits.[5]

CBIAC's charter stipulated a reserve requirement for the authorized issue, which obliged branches to maintain in their vaults an average monthly amount of specie equal to one-third of its local circulation volume. It was more lenient than the one imposed on another well-known British bank operating in East Asia, the HSBC.[6] CBIAC's balance sheets suggest that the requirement was largely adhered to by maintaining total liquid reserves that were usually well above local circulation figures, albeit having to support current accounts and other liabilities at the same time.[7]

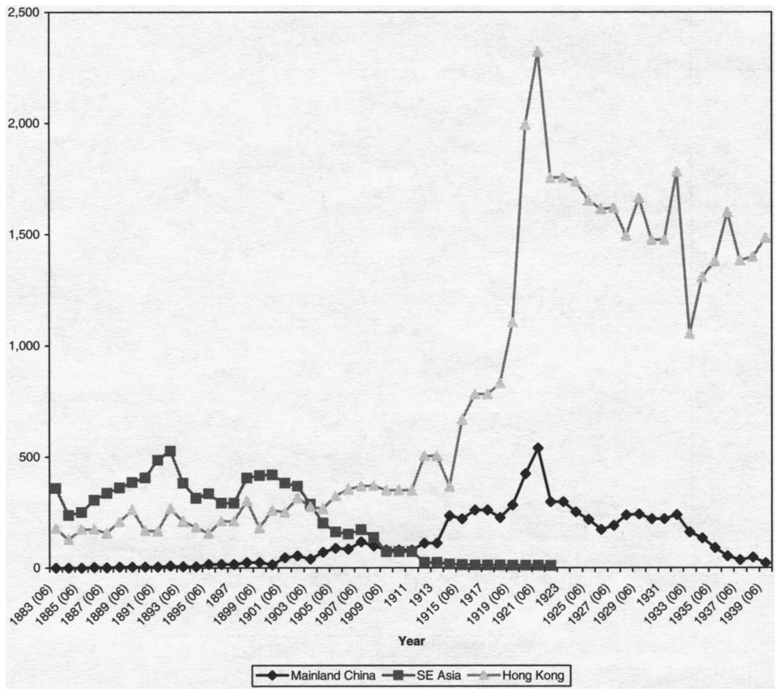
With more rigorous Treasury regulation during the 1910s, CBIAC specie reserves were progressively superseded by the purchase of interest-bearing government securities on the order of 1:3 of the total permissible issue earmarked to each branch. The securities were then deposited en bloc with the Bank of England.[8] Oversight of overseas bank notes in greater China was further tightened in the 1920s, and CBIAC was now required to place the reserve in the custody of the Hong Kong government, and as from 1928, to entrust a proportionate share of securities to the hands of the British consul-general in Shanghai.

Meanwhile, monetary regulation in the Straits Settlements was taking a different direction than in greater China after colonial administrators resolved to introduce legal tender notes covered by sterling reserves in 1896 and to abandon the silver standard in 1906 (Van der Eng, 1999: 71-72; Drake, 2004: 102-4). Re-based Straits Settlements government notes rapidly replaced older HSBC and CBIAC issues, thereby forcing the banks to rethink their global circulation strategy. Profits accruing from overseas bank note issues in East Asia must have been considerable, since CBIAC began to actively petition the Treasury to permanently increase its authorized circulation quota for greater China in recompense for a diminished share of the money supply in the Straits Settlements.[9]

To what extent was the loss of the Straits bank note issue a blow to the British banks? A proper answer would require a rough reconstruction 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, whereas reserves against the China issue were never specified in *Hong Kong Blue Book* aggregates. In 1898, CBIAC had a total reserve of S$1.3 assigned against just less than S$4 million in circulation in the Straits Settlements. This amounted to just one-third cover for the local issue. Only S$830,000 of the cover was metallic (read: nonyielding).[10] With two-thirds of the issue practically uncovered, and allowing for a moderate interest rate of 2.5 percent, the bank was in a position to garner a gross profit of S$80,000 annually, if it channeled the fiduciary portion of the proceeds to its borrowing clients. It is therefore plausible that profits accruing from the Straits issue alone constituted as much as 5 percent of CBIAC's total profits that year.[11]

The loss of the Straits issue meant that, as from the 1910s, Hong Kong became the focal point of British overseas bank note circulation in the region, far exceeding both mainland China and Southeast Asia, as Figure 2 clearly shows. Such HK$ notes did not just become a pillar of the colony's own financial markets, but they also alleviated money supply shortfalls in

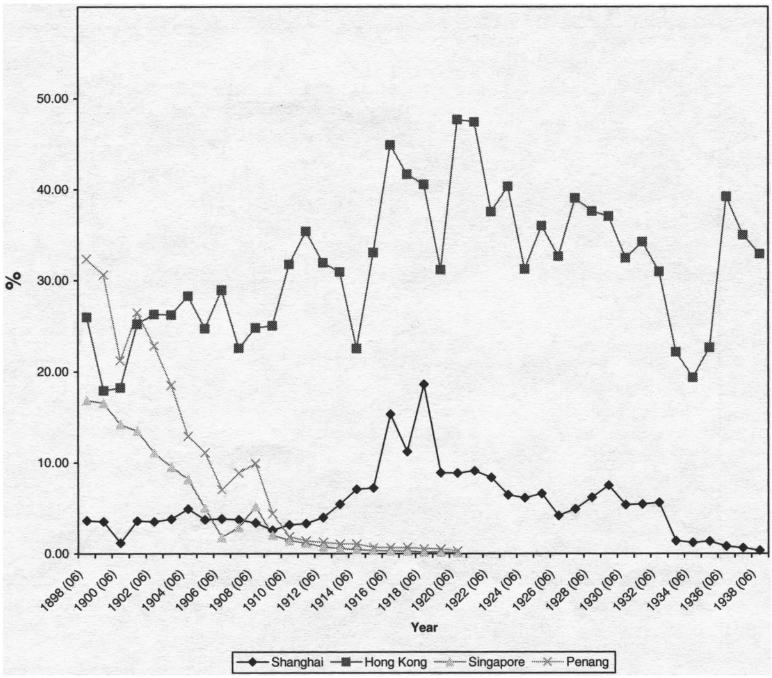
Figure 2
CBIAC Note Circulation: Regional Disaggregation, 1883-1939, Unit: GBP (000)



Source: Adapted from GL, Ms 31519.
Note: Missing data for 1897, 1910, 1911, 1913,1917, 1923, and 1931 were added based on midyear figures from the previous year. The mainland China aggregate covers tael and Mexican dollar note issues in Shanghai, Tianjin, and Hankou; the Hong Kong aggregate covers all notes issued in the Crown Colony regardless of whether they circulated locally or in South China; the Southeast Asia aggregate covers Singapore, Penang, and the bank's small issue in Siam.

the neighboring province of Guangdong right until the early 1950s.[12] Recognizing that economic growth would require more means of payment, the reallocation of British overseas bank note circulation quotas was welcomed by a Hong Kong government that was wary of radical currency reforms of the sort implemented in the Straits Settlements. Hong Kong's prosperity depended on trade with China, which clung to both the silver standard and to variegated payment conventions. Locally denominated notes issued on

Figure 3
Note Circulation as Percentage of Liabilities in Principal Branches, 1886-1936



Source: Adapted from GL, Ms 31519.

the Chinese mainland were an essential but minor auxiliaries to CBIAC's circulation of HK$, because Hong Kong units of value did not take root in Chinese treaty ports north of Guangzhou (Horesh, 2007: 3).

The twentieth century saw a moderate decline in CBIAC's note issue as a proportion of the bank's overall activity: between 1903 and 1935 the bank's total liabilities and paid-up capital grew by approximately 360 percent, while its note circulation expanded by 245 percent.[13] Higher balance sheet totals were nonetheless indicative of the rapid growth of intra-Asian trade—as well as of intercontinental trade—the mainstay of all British overseas bank business (Hsiao, 1974: 144-50). During this period, CBIAC's Southeast Asian strongholds countervailed, in effect, the bank's inferior position as a creditor in China, while its diminishing role as a bank of issue in the Straits Settlements was compensated by a surge of issues in Hong Kong. This development pattern meant that the Hong Kong branch was becoming increasingly differentiated from other CBIAC branches around the world in that an unusually high proportion of its business activity was derived from note issuance, as Figure 3 indicates. By and large, Figure 3 also indicates that early overseas bank issues in Singapore and Hong Kong were more welcomed by local residents than in Shanghai. HK$ notes issued as early as 1862 by the CBIAC branch in the Crown Colony were in wide circulation three years later and often used as cash reserves by local money-lenders (Mackenzie, 1954: 61). Many such notes soon found their way to the British concession area in Shamian, Guangzhou, trading at a premium in the face of frequent runs on local banks. In Shanghai, however, CBIAC notes did not attain significant circulation until 1885, but initial results then were still marred by widespread suspicion.[14]

The Chinese Setting

The issue of British overseas bank notes in Shanghai could not be divorced from China's own troubled legacy as the birthplace of paper money in the eleventh and fourteenth centuries.[15] By the seventeenth century, silver ingots, Spanish–American silver dollars, and local copper coins had overwhelmingly become the main media of payment. Officials rarely toyed with the idea of reintroducing fiduciary currency. A last-ditch attempt to issue imperial paper notes was made during the Xianfeng era (1851-61), but these depreciated rapidly when widespread rebellions threatened the court. By 1859, they were worth a fraction of their original value and were seldom redeemed by imperial tax inspectors (Hamashita, 1989: 57-61). The Chinese therefore regarded paper notes, as any other form of nonmetallic money, with a high degree of suspicion when British banks established their first branches on the mainland.

In nineteenth-century Shanghai, Chinese wholesalers often paid for imported goods in money shop drafts (*zhuangpiao*), which their foreign purveyors then forwarded to overseas banks. The drafts could not be cashed until the banks clarified their validity with the money shop in question or with the money shop guild if arbitration was called for. Similarly, Chinese vendors of silk and tea were occasionally paid in foreign drafts, which they cleared via their habitual money shops (McElderry, 1976; *Shanghai qianzhuang shiliao*, 1960: 18-23). In that respect, the issue of quasi-foreign bank notes may be interpreted *ex post* as a bold attempt to introduce into the treaty-port economy a universal fiduciary means of payment that would reduce the use of drafts and subsequent bullion movements as well as minimize the reliance of foreign banks on local intermediaries and assayers (*gonggu*).

Not until half a century after the first issues in Shanghai did overseas bank notes manage to partially replace bullion. CBIAC's issue in Shanghai was one of the earliest, dating back to 1863. Like other quasi-foreign note issues in the city, it was initially rejected by Chinese clients, not least because the city's imperial revenue superintendent (*daotai*) had refused to accept the notes in customs payments.[16] We can also surmise that the failures of two other British banks—Agra Bank and the Oriental Bank—in the 1880s weighed heavily on CBIAC's and HSBC's standing in the eyes of early foreign-concession dwellers. More important, these failures persuaded Treasury regulators in London that expatriate British and indigenous note bearers needed better protection from the instability of overseas banking in the colonies, and that British private note issues in Asia should be gradually phased out—Hong Kong being the sole exception after 1910 (Jones, 1993: 38-39).

The period between 1895 and 1914 is generally seen as the zenith of British imperialism in China proper. However, the volatility of the European Powers' grip on East Asia became abundantly clear after the Russo-Japanese War (1904-5), whose unanticipated outcome had reverberated throughout the region for years to come. Japanese expansionism was then precipitated by the ouster of Germany from its Asian concession areas during World War I and by the meltdown of the Anglo-Japanese Alliance (1902-23). In the 1920s, the three principal British overseas banks in East Asia—HSBC, CBIAC, and the Mercantile Bank of India—were still unchallenged financially, but with the rise of Chinese nationalism and the phenomenal leap in homegrown modern banking, their future prospects in the treaty ports were becoming increasingly uncertain (Hong, 2001: 252-56; Cheng, 2003: 70-78).

Faced with unremitting popular outcry, extraterritoriality was first ceded by British garrison forces in Hankou as early as January 1927, paving the way for British government rapprochement with a resurgent Guomindang (GMD) two years later and a long process of accommodation between the proxies of Jiang Jieshi (Chiang Kai-shek) and the leading British bankers in Shanghai (Wood, 1998: 181-83; King, 1987: 3.355-62). The most sensitive issue in contention between the ruling GMD and Shanghai's expatriate banking community during the Nanjing Decade (1927-37) was the future of China's mammoth foreign-debt service. The hold of foreign banks on domestic deposits and their right to issue locally denominated notes were of secondary importance, because a hostile GMD could potentially suspend debt repayments to foreign creditors but do little to interfere with the banks' other prerogatives so long as extraterritoriality was in effect. Nevertheless, GMD officials continued to view the free circulation of quasi-foreign bank notes in the treaty ports as an affront to Chinese national aspirations and as a major obstacle to comprehensive monetary reform.

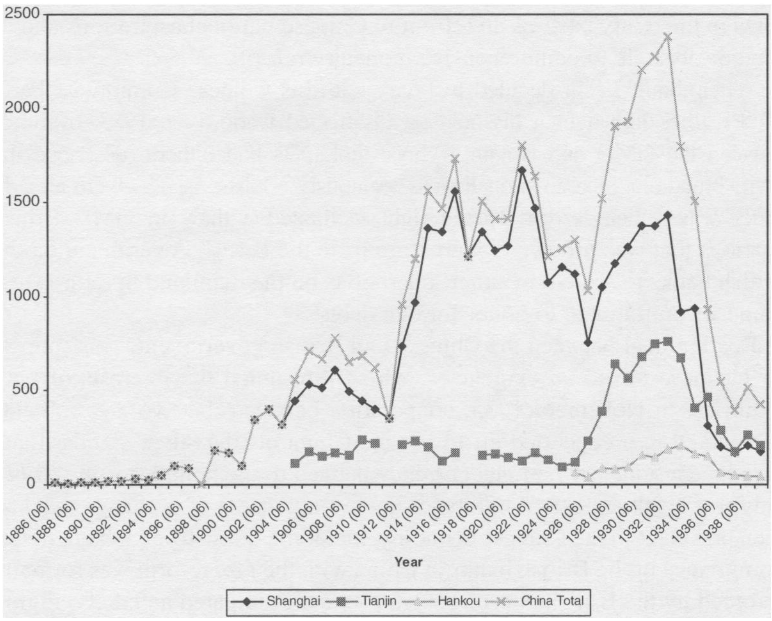
When Jiang Jieshi decided to break with his Chinese Communist Party (CCP) allies and tighten his hold on disaffected warlords in 1927, overtures between the GMD and Britain—whose diplomats had hitherto described the GMD brand of Chinese nationalism as ominously "Bolshevised"—were already under way.[17] Jiang's drift to the right facilitated a thaw in GMD–British relations that was followed by pressure from the British government on the British banks to scale down their operations on the mainland in return for a Chinese commitment to honor foreign debts.

Realignment between the Chinese and British governments was spurred by Japanese territorial exigencies, which threatened the interests of both countries. In November 1935, cooperation between the two governments culminated in a concerted effort to take China off the silver standard and introduce a fiduciary national currency pegged to the pound sterling (*fabi*). This new legal tender was to replace the myriad media of exchange that had been prevalent in the Chinese economy, including quasi-foreign bank notes. Compliance of the British banks in China with the *fabi* reform was formally enforced by the British consul-general, who promulgated an edict obliging all British firms in Shanghai to hand in their silver possessions and convertible paper notes to GMD-run banks in return for legal tender notes.[18] Ultimately, note issue rights were sacrificed by the British government with surprisingly little opposition from the British banks.

What was the underlying reason for the British banks' readiness to renounce note issuance in China? The CBIAC balance sheets suggest that the bank's note circulation volume fell precipitously from mid-1933, when a shift in U.S. monetary policy sent silver prices skyrocketing worldwide, and as public anticipation of currency unification and the demonetization of silver was building up (see Figure 4). CBIAC's total note circulation in China fluctuated well above Shanghai Tls. 1 million between 1913 and 1934, hitting a record level of Tls. 2.3 million as late as June 1932.[19] Yet when the analysis is confined to Shanghai, it becomes immediately evident that this pattern was interrupted in 1915 and through the mid-1920s.

To put the events leading up to the *fabi* reform in perspective, the patterns implicit in Figure 4 need to be further explored. First, Chinese suspicion of notes meant that the aggregate circulations volume on the mainland

Figure 4
CBIAC Note Circulation: Mainland China Denominations, 1886-1939, Unit: Shanghai Tls. (000)



Source: GL, Ms 31519.
Note: The value of bank notes denominated in Mexican dollar and Tianjin tael were converted to the Shanghai tael based on the bank's implicit exchange rate.

picked up only around the turn of the century, rising moderately for about a decade thereafter. It then conspicuously shot up in the wake of the Qing downfall and as China descended into chaos during the early Republican period. This was a time when the credibility of Chinese-issued bank notes was ebbing (Wagel, 1915: 165).

The credibility of Chinese-issued bank notes hit rock bottom in 1916, when Yuan Shikai, the first president of the Republic, tried to shore up the precarious fiscal standing of his regime by expropriating the silver reserves of the Bank of China and Bank of Communications and by substituting their bank notes with inconvertible currency. What saved the Bank of China was the fact that its branch managers in Shanghai, where much of its reserves had been stored, refused to comply. Yuan's government was unable to retaliate because the branch was situated within the foreign concession area, and the scheme fell through a few months later (Cheng, 2003: 61-62; Sheehan, 2003: 54-60).

But as Figure 4 shows, the notorious 1916 moratorium on the convertibility of Chinese state bank notes did not necessarily translate into further demand for quasi-foreign notes. Instead, one finds a marked drop in CBIAC's Shanghai circulation volumes beginning in mid-1915. The 1915 drop and subsequent four-year trough may have primarily stemmed from the effects of World War I on the leverage of British banks in the city.[20] Throughout 1916, for example, Shanghai's pro-German prefect attempted to destabilize HSBC and probably other British banks by spreading rumors that German battleships had scuttled Shanghai-bound vessels freighting bullion from England. Then the prefect misinformed the Chinese government that HSBC's managers in Shanghai and Hong Kong had absconded and that their branches were forced to shut down, resulting in a run on HSBC bank notes (King, 1987: 2.575-76).

Another side effect of the war was a sudden reprise in the value of silver in Europe. By 1917 it had precipitated an arbitrage-driven backflow of bullion from China. The reprise compounded the drop in CBIAC note circulation volumes because the alternative cost of pledging bullion locally in return for notes increased. The consequences of note redemption and the silver backflow in 1917 were so pervasive that the Shanghainese press frequently reported acute cash stringency.[21]

The foreign, non-British sector was, on the other hand, beset by salient bank failures during much the same period. In 1914, the Allies forced the Deutsch–Asiatische Bank branches in China to shut down. The branches were barely able to resume their operation in 1918; the Banque Russo–Asiatique, nominally a Sino–Russian joint venture but effectively a French-owned private firm, had to be reconstituted in the wake of the Bolshevik Revolution in 1917 and ultimately failed in 1925; the Asiatic Banking Corporation, a Sino–American joint venture, was on the brink of failure in 1924 and was eventually sold off to the International Banking Corporation (Xu, [1932] 1970: 138-40; Ding, 1994: 2.67-68, 101); the Chinese–American Bank of Commerce, another U.S. joint venture, suspended business in 1928 (Pugach, 1997). But perhaps the failure most inimical to the reputation of foreign financial institutions occurred in 1921, when the French-run Banque Industrielle de Chine had to suspend the convertibility of its Shanghai notes until Chinese state banks came to its rescue (Chen, [1932] 1982: 293-96; Bergère, 1989: 240-42).

As indicated above, the sudden drop in CBIAC's Shanghai circulation volumes after June 1933 correlates with legislation in the United States that allowed President Roosevelt to tackle the Depression by drumming up the price of silver. Under the influence of U.S. purchases of silver, the intrinsic value of China's silver-based currency appreciated far above its exchange value, resulting in a lucrative export of the metal overseas and a rapid narrowing of the money base (Lin, 1936: 11-16; Sheehan, 2003: 163). During 1934 and 1935, the Chinese government tried to combat the flight of silver by imposing hefty export duties. However, confidential Whitehall documents reveal that several foreign banks—including CBIAC—routinely shipped silver out of China right under the GMD government's nose.[22] The high alternative cost of immobilizing silver reserves against the note issue in Shanghai during 1934 and 1935 may well have led CBIAC branch mangers to retire notes when presented for encashment. It is equally plausible that the flight of silver overseas further alarmed note bearers, who preferred to capitalize on the high price of silver themselves.

Either way, the other conspicuous drop in CBIAC's Shanghai note circulation volume (see Figure 4, mid-1920s) is attributable to an entirely different set of circumstances. By and large, foreign firms operating in China confronted repeated waves of popular boycott between 1919 and 1926, heightened by the crumbling of the last vestiges of central authority protection. In CBIAC's case, anti-foreign sentiments seem to have taken their toll particularly in Shanghai, where the circulation volume was almost halved from Tls. 1.24 million in June 1919 to 0.75 million in June 1926 (GL, Ms 31519/49 to 92). The most pronounced annual drop during this period occurred between June 1925 and June 1926. This, in turn, points to a strong circumstantial linkage between circulation volumes and the outpouring of anti-British demonstrations in the wake of what became known as the May Thirtieth Incident (*Wusa can'an*).

The May Thirtieth Incident in 1925 broke out when a labor dispute in a Japanese textile mill situated in the British-policed concession of Shanghai degenerated into a yearlong nationalist boycott against British goods, which swept across other major treaty ports as well as Hong Kong (Remer, 1933: 101-12, 121; Rigby, 1980: 38-56). At the height of this conflict, CBIAC was compelled to send Portuguese clerks from Hong Kong to replace large numbers of local staff on the mainland who had collectively resigned (Mackenzie, 1954: 236-37). Violent demonstrations rocked British diplomatic legations and militated an increasingly assertive group of Chinese modern banks to fold back cooperation with their foreign counterparts. Despite relative insulation from the domestic sector and the transient nature of the boycott, bank notes had become by then one of the most tangible aspects of the British banks' presence in the treaty ports and were therefore particularly vulnerable to popular rejection.[23]

Hong Jiaguan and Zhang Jifeng have argued that, perhaps more than any other event in the twentieth century, the May Thirtieth movement helped Chinese modern banks flourish, and they have pointed to a 71.4 percent rise in the volume of funds deposited therein through 1925.[24] While such dramatic gains cannot be dismissed offhand, the CBIAC Shanghai branch balance sheet does *not* point to a commensurate drop in foreign bank deposits. CBIAC fixed deposits in Shanghai merely dropped from Tls. 7.9 million in December 1924 to Tls. 6.3 million in December 1925, while current accounts actually climbed from Tls. 7.7 million to Tls. 8.5 million (see GL. Ms 31519/78 to 83). Considering that the CBIAC note circulation volume in the city was almost halved during the same period, deposit levels clearly show that Chinese responses to the anti-foreign agitation were by no means uniform. It seems plausible that Chinese bearers were keen to redeem quasi-foreign bank notes, which were of a highly visible nature but less inclined to entrust funds long deposited in foreign banks to Chinese banks.

CBIAC started issuing Mexican dollar notes in Hankou during the latter part of 1924 and met with initial success. But there, too, circulation dwindled markedly between June 1925 ($89,950) and June 1926 ($57,150) without a commensurate effect on deposit receipts or current accounts (GL, Ms [31519] 80, 85). In Tianjin, a substantially different pattern emerged, a factor that may invite us to speculate on the varying monetary and political pulses that set North China apart from the Yangzi basin. Suffice it to say at this stage that the spasmodic wave of anti-British demonstrations, which had convulsed Shanghai in June 1925, spread southward but was much less evident in North China (Sheehan, 2003: 110-11).

That said, the Chinese boycott of British goods in 1925 clearly bore on the overall performance of the bank, as a large segment of its revenue hinged on the finance of trade between the two countries. In his annual address to shareholders delivered in March 1926, CBIAC's chairman, Sir Montagu Cornish, described the situation in bleak terms,[25] as follows:

> We now come to China, the particular spot which has caused great anxiety both to banks and traders alike. The position in that unfortunate country and the conditions of trade have been most deplorable for some considerable time, but the serious trouble began with the riots in Shanghai in May last. Strikes and boycotting caused a complete collapse of business in Shanghai for a couple of months, and following on this, civil war, suspended for a

> while, burst out with increased intensity. Naturally, the situation which has now developed gives cause for much anxiety, and what it means to Great Britain—the trade figures reveal at a glance. For 1925, we are afraid that the figures will make a poor showing compared with the preceding years.

The tenor of the chairman's pronouncement was indicative of a substantial diminution of earnings for all the three principal British banks operating in China in 1925. But while CBIAC's total real profits fell by 15.5 percent compared with the previous year, HSBC suffered an overall drop of only 2 percent.[26] The Mercantile Bank of India was even less dependent on the Chinese market, showing an overall profit hike of 5.8 percent in 1925. However, local statistics available for the Mercantile Bank reveal that its Shanghai branch was incurring heavy losses throughout 1920-1925 (year-end figures) and that the bank's note circulation there plummeted from the equivalent of GBP 56,000 to just GBP 19,343 during the same period.[27]

In the mid-1920s, challenges to British firms in China were not confined to trade and banking. Domestic firms took advantage of the political climate to lure away clients from British multinationals in a wide range of sectors. For instance, Nanyang Bros. produced cigarettes in Shanghai that snatched a significant market share from the British American Tobacco Company (BAT); Chinese shippers stung British steam navigation hegemony on the Yangzi; and most Shanghai department stores catering for the masses were dominated by overseas Chinese.[28] In his landmark study of Sino–foreign corporate rivalry in the treaty ports, Sherman Cochran found that the 1925 boycott had considerably boosted Nanyang's profit margins but could not ascertain BAT's performance in China presumably because he had been denied access to the relevant corporate archives in London. He therefore concluded that the economic impact of the May Thirtieth Incident was "not fully understood, and deserve[s] further research." (Cochran, 1980: 177-78, 182, 230).

The CBIAC Shanghai balance sheets fall short of providing a robust estimate of branch losses incurred in 1925, but the long-term circulation pattern that they delineate can help us better understand the magnitude of the boycott and why British banks were prepared by 1935 to accede to Chinese monetary unification.

Conclusion

Although rarely discussed in-depth by economic and business historians, the issuance of convertible bank notes was one of the definitive features of nineteenth-century British overseas banking. Established in both colonies and sovereign countries, these highly specialized banks underpinned the surge in global and intra-regional trade from the 1830s, demonstrating impressive growth in some cases but damning vulnerability to currency fluctuations in others. The principal British overseas banks in East Asia came to play a decisive role in the formation of the Hong Kong and Straits Settlement currencies and, for a long period, were the sole suppliers of paper money in these colonies.

The same business rationale led these banks to issue locally denominated notes beyond the colonies too. Such issues were initiated in the treaty ports of Siam, Japan, and China—but the latter proved by far their largest and most durable market. Throughout East Asia, the spread of overseas bank notes was instrumental in resuscitating the use of fiduciary money.

For the CBIAC, the second largest of the British banks operating in the region, note issues was a lucrative pursuit, despite the restrictions the British Treasury and Colonial Office placed on excess issues. CBIAC's Hong Kong branch was crucially important to the sustainability of the bank's note circulation volume during the early twentieth century, as the Straits Settlements government introduced a re-based legal tender. At the same time, notes denominated in either local tael units or Mexican dollars and disseminated in the Chinese treaty ports served as an important auxiliary to the HK$ notes issued by the bank, particularly between 1911 and 1920. The prevalence of these bank notes in China was, however, contingent on the changing political climate and the vagaries of the traditional monetary system.

The most significant finding that emerges from the CBIAC records—at least until more qualitative branch correspondence comes to light—is that British bank note circulation in Shanghai was dramatically set back in 1925 after years of almost uninterrupted growth. The rise of modern Chinese banking and GMD regulation influenced quasi-foreign note circulation and overseas banking at large, but it was the May Thirtieth Incident and its aftermath that may have been the single most important factor in explaining why British banks were prepared to renounce many of their treaty port privileges by 1935. This proposition differs fundamentally from previous analyses of British bank notes circulation in greater China, which tended to gloss over the implications of political upheaval during the mid-1920s.[29] In that sense, the CBIAC story told here may help us better appreciate not only the ways in which European financial institutions modified the course of monetary history in East Asia but also the extent to which popular movements and nation-building reforms changed European business strategy in Asia toward the postcolonial era.

CBIAC's note issue in East Asia makes for a complex story. In Siam, the notes were first welcome and then rejected by the Rama dynasty. In British Malaya, they were the first form of paper money to spread into the interior but have long since become a collector's item. On mainland China, they had never been recognized by local authorities and were ultimately stamped out by the *fabi* reform of 1935. In Hong Kong, the CBIAC note issue was secondary to HSBC's. But, ironically, 1935 was also the year in which CBIAC HK$ notes finally attained legal tender status in the Crown Colony. In sum, CBIAC notes circulated across East Asia in the long amorph that stretched there between legal to illegal tender.

Notes

1. The CBIAC local branch balance sheets were only recently opened to public scrutiny, as part of much wider collection deposited in the Guildhall Library, London, in 1989. More qualitative materials from this collection could have been of great value to this study, but they are not expected to be released soon. On the fate of other Chartered Bank historical records, see Freeth, 1991.

2. The Siamese government decided to supplant HSBC, CBIAC, and Banque de L'Indochine notes circulating in Bangkok with an issue of its own in 1902 (see Ingram, 1971: 150-55). Between 1889 and 1894 HSBC's circulation in Yokohama and Kobe slumped from the yen equivalent of HK$86,517 to HK$5,675. Japan's share of the bank's total circulation volume thereby dropped from approximately 1.5 percent to 0.057 percent (King, 1987: 1.39, 485).

3. CBIAC's first three supplemental charters were granted in 1861, 1874, and 1884. See United Kingdom Public Record Office (hereafter PRO) TS 18/434.

4. Ironically, Wilson was later the main force behind the abolition of private bank issues in India in his capacity as Financial Secretary to HM Treasury. See, for example, Chalmers, 1893: 346.

5. HSBC enjoyed special relationships with the Hong Kong government and was expected in return to supply notes to the colony on demand. As a result, the difference in circulation patterns between HSBC and the smaller CBIAC and MBI became increasingly pronounced in the twentieth century. HSBC's total note circulation as a proportion of paid-up capital shot up from 2.4 in 1928 to 7.3 in 1933, whereas the corresponding ratio for CBIAC and MBI declined, respectively, from 0.56 and 0.21 in 1928 to 0.43 and 0.09 in 1933. See Anon, 1934.

6. See page 9 of the original charter in PRO TS 18/434; cf. Mackenzie, 1954: 21-22, 171-72. After 1890, HSBC's note issue prerogative was subjected to far more stringent reserve requirements generally equivalent to two-thirds of its authorized circulation volume. In addition, HSBC notes had been designated from the outset as unlimited liability on shareholders in case of liquidation. See Horesh, 2006: 120-27; King, 1987: 1.112-14, 122, 391-97, 2.67-69.

7. In Shanghai, for example, the midyear ratio of liquid cash reserves to notes in circulation averaged 2.3 between 1900 and 1909, while the ratio between liquid cash reserves to notes and current accounts averaged 0.51. Calculated from the CBIAC balance sheet collection in the Guildhall Library (GL) Ms 31519/13-24.

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

9. See a letter dated August 20, 1910, from the Treasury to the Undersecretary of State in the Colonial Office indicating that the former had no objection to "the proposed reallocation [of the CBIAC] authorized note issue between several branches in the East." PRO T1/11225 (F 15126); cf. King, 1987: 2.226-29.

10. 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 percent p.a. stored in Singapore, and S$266,000 worth of British dominion bonds at 2.5 percent p.a. held by Crown Agents in London.

11. CBIAC net published profits are listed chronologically in Jones, 1993: table A5.I.

12. Estimates of HK$ notes circulating in Guangdong province during the first half of the twentieth century vary considerably between 20 percent and 70 percent of the total HK$ issue. See Tamagna, 1942: 106; Rawski, 1989: 378.

13. HSBC statistics reveal an opposite trend because, as the paramount bank in the Crown Colony, it was expected to engage in unprofitable excess issues: in December 1903, the HSBC total note circulation (equivalent to HK$13.3 million) constituted 5 percent of total liabilities, whereas in 1935 it made up 11.3 percent (HK$119 million) (King, 1987: 2.56-57, 3.82; cf. GL Ms 31519; Jones, 1993: table A5.1).

14. The second issue in Shanghai gained a circulation of Tls. 12,500 in mid-1886 but dropped to Tls. 7,500 the following year. The circulation steadily picked up thereafter. See GL Ms (31519) 5-6.

15. Bank notes became the one of the predominant means of payment in China long before Europe. However, imperial notes issues toward the end of the Song (CE 960-1279) and Yuan (CE 1279-1368) dynasties fell into disrepute because of inflationary policies. See, for example, Peng Xinwei, 1958: 323-26, 405-13.

16. Mackenzie, 1954: 59. The CBIAC Shanghai balance sheets put note circulation figures in mid-1864 at Tls.18,890, swiftly plummeting to Tls. 30 by 1870. See GL Ms 31519/1-4.

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

18. Preliminary negotiations between the GMD and the British banks in Shanghai about the handover of silver were deftly orchestrated by a special Treasury envoy, Sir Frederick Leith-Ross. See PRO FO 371/19248, November 1935; cf. Hong Jiaguan, 2001: 257-64.

19. This figure (Tls. 2.3 million) is limited, of course, to the aggregate of CBIAC bank notes denominated in Chinese local currency. The volume of CBIAC HK$ bank notes circulating outside the Crown Colony's perimeter cannot be accurately determined.

20. Between June 1916 and June 1917, CBIAC deposits in Shanghai had fallen markedly from Tls. 1,314,744 to Tls. 898,069. See GL Ms 31519/37, 41.

21. See, for example, *North-China Herald* 6 Jan. 1917: 11; 20 Jan. 1917: 140; 7 Apr. 1917: 31.

22. See, for example, Department of Overseas Trade Memorandum, dated 13 December 1934 (PRO FO 371-18138, f. 210).

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

of HSBC and CBIAC notes by Chinese bearers and a flight of capital from foreign banks during mid-1925, see *Wusa yundong shiliao*, 1981: 185-88, 199, 201-2, 214-15, 375-76, 519.

24. Hong estimated total deposits in principal Chinese banks at 1.4 billion silver dollars in late 1924. By late 1926, the total is said to have reached 2.4 billion silver dollars. See Hong and Zhang, 1989: 18-19.

25. Excerpts from the meeting were published in Anon, 1926.

26. Calculated from Jones, 1993: table A5.I. Based on the adjusting account entry in the Shanghai balance sheet, it can be plausibly inferred that at least 30 percent of the drop in overall CBIAC profits during 1925 was attributable to underperformance at this branch. See GL Ms 31519/83.

27. Calculated from Green and Kinsey, 1999: 199-212.

28. See Osterhammel, 1989: 193-94. British-owned department stores in Shanghai's International Concession catered almost exclusively to the foreign community. The leading Chinese chains, Wing On and Sincere, had been set up with overseas Chinese joint-stock capital. They did not seem to have borrowed foreign bank capital on a large scale until the 1930s. See Chan, 1996, passim.

29. Largely because of the absence of local branch data, Rawski's (1989: 378) estimate gives the impression that British bank note circulation in the treaty ports grew incrementally right until 1935. Tang and Huang's (1980: 47) earlier estimate leads to a similar conclusion.

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