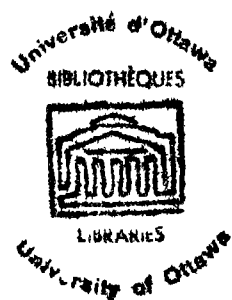


FOREIGN BANKS IN CHINA

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CHAPTER ONE: HISTORICAL DEVELOPMENTS

A. EARLY BRITISH MONOPOLY

The history of the developments of the foreign banks in China is obviously a case of abnormality. After the opening of southern ports to free foreign intercourse in 1842, as a result of the infamous Opium War^{1/}, merchants of the so-called Western maritime powers lost no chance to launch their commercial campaigns into the Chinese field, and the volume of "China trade" increased steadily. Before that time Chinese native banks seldom financed foreign trade directly or engaged in foreign exchange business along modern lines. Largely because of the serious need for credit institutions on the part of foreign merchants, therefore, foreign banks began to make their appearance in the Chinese territory.

The first foreign bank to do business in China was a British-chartered Oriental Banking Corporation, which opened its premises in Shanghai in 1848. "Without any wholesome competition, it exercised a volition in its exchange methods which rapidly brought great wealth to the institution."^{2/} However, it was subsequently closed in 1892 on account of business losses.

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1. Vinacke, H. M., A History of the Far East in Modern Times, New York, 1936, pp. 30-42. Five southern ports are Canton, Amoy, Foochow, Ningpo, and Shanghai.
 2. Jernigan, T. R., China's Business Methods and Policies, London, 1904, p. 385.

In 1854 a branch of the British-chartered Mercantile Bank of India, London, and China came into the market. But it was not until after the Chartered Bank of India, Australia, and China established a Shanghai branch in 1857 that foreign banking really began to expand. The operations of these banks consisted largely in discounting and rediscounting bills on cotton and opium in which the British merchants in particular profitted considerably.^{1/}

The banks then in China were only branches of corporations, whose headquarters were in England or India and which had been founded chiefly with the view of carrying on exchange operations between these countries and China. They were scarcely in a position to deal satisfactorily with the local trade which had become so much more extensive and varied than in former years. In 1864 a group of merchants and shipping men of Hongkong, therefore, decided to establish a new local institution, chartered under the Ordinances of Hongkong, with the name of Hongkong and Shanghai Banking Corporation.^{2/}

At the time of its establishment, British interests, chiefly represented by Jardine, Matheson, and Company, were combined with a German firm by the name of Siemssen and Company,

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1. "Foreign Banks in China," Chinese Economic Journal, January 1935, pp. 64-5.
 2. From the text of the Revolution of the merchants interested in the establishment of the bank. "History of the Hongkong and Shanghai Banking Corporation", Encyclopaedia Sinica, London, 1917, pp. 235-7.

an American concern by the name of Russel and Company and a group of Persian merchants. The capital of the new institution was fixed at Hk\$2.5 million, distributed in 20,000 shares, doubled and fully paid by 1872.

Due to disagreements between the promoters, the Hongkong and Shanghai Banking Corporation was reorganized into a British firm. Between 1870 and 1890, it increased its capital to Hk\$7.5 million in 1883 and Hk\$10 million in 1890; its deposits rose from Hk\$3.7 million to Hk\$33.9 million.

During the years between 1860 and 1870 a number of foreign banks opened branches in Shanghai, among which were the Comptoir National d'Escompte de Paris, the Central Bank of West India and some German banking houses.^{1/} Most of these banks, however, withdrew from the market later on. This early development suffered a setback during following years, and although existing institutions were carrying on an expanding business after 1875, no new foreign banking houses entered the market until 1891. This was a period of complete British monopoly in foreign trade and foreign exchanges.

B. EXPANSION OF INTERNATIONAL BANKING

After 1891 a period of extensive expansion in foreign banking was begun. The Deutsch-Asiatische Bank was established

1. A Portuguese firm, the Banco Nacional Ultramarino, with its headquarters in Lisbon, established a branch in Macao in 1864.

in that year, and two British banking houses were opened and closed. In the following year the first Japanese institution, the Yokohama Specie Bank, went into the Shanghai market. Soon after the Sino-Japanese War in 1894-5, an agreement was signed between China and Russia for the establishment of a Russo-Chinese Bank with the immediate purpose of handling the financing the Chinese Eastern Railway in northern Manchuria.^{1/} In 1899 the Banque de l'Indochine opened a branch in Shanghai, followed in 1902 by the Cathay Trust Company (under the domination of the Guaranty Trust of New York), the International Banking Corporation (at first controlled and later entirely owned by the National City Bank of New York),^{2/} and the Banque Belge pour l'Etranger. The Nederlandsche Handel-Maatschappij opened a branch there in 1903, and the Crédit Foncier pour l'Extrême Orient in 1907. Several other minor institutions were born, grew, and died in that period.^{3/}

In 1907 the capital of the Hongkong and Shanghai Banking Corporation was increased further to HK\$15.0 million; in the same year its deposits rose to HK\$224.1 million and its loans and rediscounts to HK\$219.6 million.

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1. Vinacke, *op. cit.*, pp. 137-8.
 2. Phelps, C. W., *The Foreign Expansion of American Banks*, New York, 1927, pp. 127-9; Phelps, C. W., "American Banks Abroad," *Bankers' Magazine*, January 1930, pp. 26-8.
 3. *The Chinese Year Book*, Premier Issue, China, 1935-36, pp. 1443-1451.

Between 1890 and 1898 foreign banks entered into the Tientsin market,^{1/} which took a leading position as a financial center in northern China and a place second only to Shanghai among the treaty ports.

C. INTRUSION OF JAPANESE BANKS

The outbreak of the First World War brought about important changes among foreign banks in China. The Deutsch-Asiatische Bank closed its doors in 1914, and a part of its shares was transferred to the Hongkong and Shanghai Banking Corporation.^{2/} Following the Russian Revolution in 1917, the Russo-Asiatic Bank was reorganized in Paris, under French law.

Japanese banks initiated an extensive development in China during the war. A joint Sino-Japanese enterprise, the Exchange Bank of China, was organized in 1917, with capital of ¥10 million. Half of this capital was subscribed by a Japanese group controlled by the Bank of Chosen and the Bank of Taiwan, the other half by a Chinese group controlled by the Bank of China and the Bank of Communications.

The Bank of Taiwan, which was expanding its activities in southern China (Fukien, Kiangsi, and Kwangtung provinces), and

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1. "Foreign Banks in Tientsin," Chinese Economic Journal, October 1934, pp. 392-405.
 2. Wright, S. F., The Collection and Disposal of Maritime and Native Customs Revenue since the Revolution of 1911, Shanghai, 1927.

the Bank of Chosen, which had principal sphere in Manchuria, went into the Shanghai market during the War. The Mitsui, Mitsubishi, and Sumitomo Banks opened branches in Shanghai in 1916 and 1917. In the same year a local institution, the Shanghai Bank, was organized by a group of Japanese merchants, followed in 1920 by similar institutions in Hankow, Tainan, Tientsin.

At the end of the War, there were about twenty local institutions in Manchuria either Japanese or Sino-Japanese enterprises, most of which were established between 1916 and 1918, with a capital of more than Y7 million.^{1/}

D. ENTRY OF AMERICAN BANKS

After the First World War, there was much activity in American banking houses. Between 1917 and 1918 the American-Oriental Banking Corporation was incorporated under the laws of the State of Connecticut by the Raven Trust Company, an American firm in Shanghai. In 1921 the bank opened a branch in Tientsin and founded two affiliated companies; namely, the American-Oriental Banking Corporation of Szechuan, with an office in Chungking, and the American-Oriental Banking Corp-

1. Lee, F. E., Currency, Banking, and Finance in China, Washington, 1920, p.89; Bank of Chosen, Economic History of Manchuria, Seoul, 1921, pp. 262-79 and 271-63.

eration of Fukien, with offices in Foochow and Amoy. In 1922 a subsidiary, the Asia Realty Company, was established, and in 1925 the controlling interest of the group was transferred to a new institution, the American-Oriental Finance Corporation.^{1/}

In 1918 the Asia Banking Corporation was incorporated under the Laws of the State of New York as a joint enterprise of a group of American banks headed by the Guaranty Trust Company of New York,^{2/} with its head office in Shanghai and branches in Canton, Peking, Tientsin, Hankow, and Changsha. This bank took over the interests and assets of the Cathay Trust Company. In 1919 the Park Union Foreign Banking Corporation, a joint American-Canadian enterprise, opened a Shanghai branch, but withdrew three years later, selling its interests to the Asia Banking Corporation.

The Philippine National Bank opened a branch in Shanghai in 1919 and closed it two years later, owing to heavy losses in exchange speculation. In 1921 the Equitable Trust Company of New York opened offices of its subsidiary, the Equitable Eastern Banking Corporation, at Shanghai and Hongkong, while various American interests were prominent in launching a Sino-American

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1. "The American-Oriental Group," Finance and Commerce, December 21, 1932; Lee, F. E., op. cit., pp. 36-8.
 2. Guaranty Trust Co. of New York, Trading with China, New York, 1919, p. 24. Vide also Remer, C. F., Foreign Investments in China, New York, 1933.

joint enterprise, the Bank of Commerce, China, later to be transferred to complete Chinese control and management.^{1/}

In 1919 the American Express Company, Inc., entered the banking business in China.

This unusual and short-lived development of American banking really ended in 1924, when the Asia Banking Corporation was placed in liquidation and its activities were taken over by the International Banking Corporation.

E. FURTHER EXPANSION OF INTERNATIONAL BANKING

Interest in the Chinese market also spread among other foreign institutions. Shortly after the First World War, the Credito Italiano launched the establishment of a joint enterprise, the Banca Sino-Italiana, with offices in Tientsin, Peking, Shanghai, and Hankow. In 1924 the Chinese interests withdrew and the bank became a purely Italian enterprise, the Banca Italiana per la Cina, the capital stock of which was entirely held by the Credito Italiano.^{2/}

In 1920, the P. and O. Banking Corporation was founded by Far Eastern shipping interests, and the Netherlandsch

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1. Text of the Charter in Lee, F. E., op. cit., pp. 168-9, Appendix A.
 2. Tamagna, F. M., Italy's Interests and Policy in the Far East, New York, 1941, p. 12.

Indische Handelsbank opened branches in various cities of southern China, and a Sino-Scandinavian bank and a Sino-Belgian institution were formed.

In 1923, following the signing of a commercial treaty between China and Germany, the Deutsch-Asiatische Bank resumed operations in Peking, Tientsin, and Shanghai.

A new Russian bank, the Far Eastern Bank, was organized in northern Manchuria, on the basis of an agreement between the U.S.S.R. and the Peking Government, with the purpose of taking over the administration of the funds of the Chinese Eastern Railway from the Russo-Asiatic Bank. This bank went into voluntary liquidation in 1926 and its deposits from customs and salt revenues were transferred to the Hongkong and Shanghai Banking Corporation, the Banque pour l'Indochine and the Yokohama Specie Bank.¹

In 1918 joint French and Chinese interests founded the Société d'Épargne Franco-Chinoise, along the lines of the International Savings Society (established under French management in 1912). The new institution was turned over entirely to the Chinese partners in 1926.

In 1921 the Hongkong and Shanghai Banking Corporation raised its capital to Hk\$50 million, of which Hk\$20 million was paid up.

1. "Report to the Ministry of Finance on the Liquidation of the Russo-Asiatic Bank," Chinese Economic Bulletin, January, 7, 1926; Wright, S. F., *op. cit.*, pp. 1-32.

In the same year its deposits rose to HK\$171 million and its loans and rediscounts to HK\$405 million.

Foreign banks suffered some loss of prestige with the bankruptcy of the Banque Industrielle de la Chine, which was caused by illiquid assets, speculative investments and political maneuvers. A Société Française de Garantie de la Banque Industrielle de Chine, with an independent capital of 15 million French francs, was formed and entrusted with the task of collecting the assets of the Banque Industrielle. The liquidation of the liabilities was made according to an arrangement between the French and Chinese Governments, by which the outstanding French share of the Boxer indemnity was used to pay Far Eastern creditors of the Bank. The liquidation was completed in 1925, and a new institution was set up, the Banque Franco-Chinoise pour le Commerce et l'Industrie, with branches in Shanghai, Hongkong, Peking, and Tientsin.^{1/}

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1. A withdrawal of deposits from the Banque Industrielle of about a half-billion francs occurred between June and December 1920. A french banking syndicate, headed by the Banque de Paris et des Pays Bas, came temporarily to the rescue, advancing 250 million French francs which melted away rapidly. Connections with a Société Maritime du Pacifique seems to have been chiefly responsible for the losses. Against the remission of the Boxer Indemnity, the Chinese Government issued bonds to the amount of CN\$43.9 million, for the purpose of paying off Far Eastern creditors. -emer, C. F., op. cit., pp. 62-7; The China Year Book, 1923, pp. 200-21, 1924, pp. 715-9; 1. 23, pp. 1296-1300.

Since 1920 the Chase National Bank (American, 1920) and the Union Immobilière Société Française de Banque et de Placement (French, 1921) have been established. After 1927, the Thriftcor Bank (American, 1930), the Underwriters Savings Bank for the Far East (American, 1930), the E. D. Sassoon Banking Corporation (British, 1930), the Pinto's Banking Corporation (British, 1932), the Tientsin Commercial and Credit Corporation (American, 1932), the Moscow Narodny Bank (British, 1934) were established.^{1/} Banks whose date of establishment is unknown were the Bank of China and Japan and the Societa Coloniale Italian.

During the eighty-five years between 1948 and 1933, an average of one foreign bank established in China every year and the influence of foreign banks spread all over the big cities. By 1936 there were altogether in China thirty-three foreign banks and banks in which foreign capital participated. Some 141 branches were scattered over practically all the former trade ports such as Shanghai, Tientsin, Hankow, Canton, Swatow, Chefoo, Amoy, Foochow, Tsingtao, Tsinan, Peiping (Peking), Mukden, Dairen, Harbin, and Yinkow, in addition to other cities such as Hanking, Kowloon and Mengtze.^{2/}

After the outbreak of the Sino-Japanese conflict in 1937, foreign banks other than Japanese banks were forced to a stand-

1. The Chinese Year Book, 1937, p. 553.

2. op. cit., 1935, pp. 144-9; 1936, p. 791; 1937, pp. 534-5.

still or subjected to severe restrictions under the Japanese occupation. Hongkong continued to be the British center of banking activities in the Far East for a while before it was taken over by the aggressors. However, many foreign banks showed their cooperation with the Chinese National Government by maintaining services in Free China and some even opened new branches in the interior; for instance, the Hongkong and Shanghai Banking and the National City of New York established branch offices in Chungking, China's war capital.

By 1933, no less than sixty-two foreign banks belonging to nine nationalities, namely, five British, five American, four French, 30 Japanese, two Dutch, two Italian, one Russian, one Belgian, one German, one French-Belgian, and two others, were established in China.^{1/} Since the conclusion of the Sino-Japanese War, many of the former foreign banks have resumed their operations in China except those belonging to the defeated countries, namely, Japan, Germany, and Italy.

1. The Chinese Year Book, 1943, pp. 302-3.

FOREIGN BANKS IN CHINA
(AT THE END OF 1936)

Date of
establish-
ment

<u>Name of institution</u>	<u>Nationality</u>	<u>Head office</u>	<u>in China</u>	<u>Offices in China</u>
Mercantile Bank of India	British	London	1854	Shanghai, Hongkong
Chartered Bank of India, Australia, and China	British	London	1857	Canton, Hankow, Peiping, Shanghai, Tientsin, Tsingtao, Hongkong
Hongkong and Shanghai Banking Corporation	British	Hongkong	1864	Amoy, Canton, Chefoo, Foochow, Hankow, Peiping, Shanghai, Swatow, Tientsin, Tsingtao, Hongkong, Howloon
Banco Nacional Ultramarino	Portuguese	Lisbon	1864	Macao
Deutsch-Asiatische Bank	German	Shanghai	1889	Canton, Hankow, Shanghai, Tientsin, Tsingtao
Yokohama Specie Bank	Japanese	Yokohama	1892	Canton, Hankow, Peiping, Shanghai, Tientsin, Tsingtao, Hongkong
Banque de l'Indochine	French	Paris	1890	Canton, Hankow, Kuming, Nengtsz, Peiping, Shanghai, Tientsin, Hongkong
National City Bank of New York	American	New York City	1902	Canton, Hankow, Peiping, Shanghai, Tientsin, Hongkong
Banque Belge pour l'Extrême Orient	Belgian	Brussels	1902	Hankow, Shanghai, Tientsin, Hongkong
Nederlandsche Handel-Maatschappij	Dutch	Amsterdam	1903	Shanghai, Hongkong
Seiryu Bank	Sino-Japanese	Dairen	1906	Tientsin, Tsingtao
Crédit Foncier pour l'Extrême Orient	Franco-Belgian	Brussels	1907	Hankow, Shanghai, Tientsin, Hongkong
Bank of Taiwan	Japanese	Taihoku	1911	Amoy, Canton, Foochow, Hankow, Shanghai, Swatow, Hongkong
Banque Franco-Chinoise pour le Commerce et l'Industrie	Sino-French	Paris	1913	Peiping, Shanghai, Tientsin
Sumitomo Bank	Japanese	Osaka	1913	Shanghai
Mitsui Bank	Japanese	Tokyo	1917	Shanghai
Mitsubishi Bank	Japanese	Tokyo	1917	Shanghai
Shanghai Bank	Japanese	Shanghai	1917	Shanghai
Bank of Chosen	Japanese	Seoul	1918	Shanghai, Tientsin, Tsingtao
American Express Company, Inc.	American	New York City	1919	Peiping, Shanghai, Tientsin, Hongkong
Banca Italiana per la Cina	Italian	Shanghai	1919	Shanghai, Tientsin
Hankow Bank	Japanese	Hankow	1920	Hankow, Shanghai
Bank of Tientsin	Japanese	Tientsin	1920	Peiping, Tientsin
Bank of Tsinan	Japanese	Tsinan	1920	Tsinan, Tsingtao

(Continue from the
foregoing page)

<u>Name of institution</u>	<u>Nationality</u>	<u>Head office</u>	<u>Date of establish- ment in China</u>	<u>Offices in China</u>
Nederlandsch Indische Handelsbank	Dutch	Amsterdam	1920	Amoy, Shanghai, Hongkong
Chase National Bank	American	New York City	1920	Shanghai, Tientsin, Hongkong
P. and O. Banking Corporation	British	London	1920	Shanghai, Hongkong
Union Mobilière Société Française de Banque et de Placement	French	Shanghai	1921	Shanghai, Tientsin
E. D. Sassoon Banking Company	British	Hongkong	1930	Shanghai, Hongkong
Underwriters Savings Bank for the Far East	American	Shanghai	1930	Shanghai, Hongkong
Finance Banking Corporation	British	Shanghai	1932	Shanghai
Tientsin Commercial and Credit Corp- oration	American	Tientsin	1932	Tientsin
Moscow Narodny Bank	British	London	1934	Shanghai

Source: Annual reports of the banks, 1936; Ju-lin Foo, "Banking",
The Chinese Year Book, Shanghai, 1937, p. 536; The Chinese
Bankers Year Book, Shanghai, 1936.

CHAPTER TWO: BANKING GROUPING AND OTHER FINANCIAL INSTITUTIONS

A. BANKING GROUPING

With few exceptions, practically all foreign institutions in China transacted general rather than specialized banking business. An elementary classification of the institutions in existence as of June 1937 (prior to the outbreak of the Sino-Japanese War) can be made on the basis of nationality.

The British banks led the market, with the old Mercantile Bank of India and the Chartered Bank of India, Australia, and China and the powerful Hongkong and Shanghai Banking Corporation. During the thirties some British business firms in the Far East started banking activities; for instance, the E. D. Sassoon Banking Company, Ltd. in 1930 and the Finance Banking Corporation in 1932. And other foreign banks opened branches in Shanghai, including the P. and O. Banking Corporation, connected with shipping interests, and the Moscow Narodny Bank, an institution established in 1919 in London by Russian merchants and later on as the financial link for the Soviet banks and foreign trade organizations.

The condition of the Hongkong and Shanghai Banking

Corporation may be considered sufficiently representative of other British banks in China. At all time the British banks are in a position to reap substantial profits from exchange operations on both official and private accounts. Before the British Government declared war with Japan in December 1941, the following British banks had continually expanded their business in China: Hongkong and Shanghai Banking Corporation, Chartered Bank of India, Australia, and China, Mercantile Bank of India, Ltd., E. D. Sassoon Banking Company, Moscow Narodny Bank, and Thomas Cook and Son (Bankers), Ltd. On February 1, 1939, the Chartered Bank of India, Australia, and China took over the assets and liabilities of its subsidiary, the P. and O. Banking Corporation.

The American group suffered a serious loss with the bankruptcy of the American-Oriental Banking Corporation in 1935.^{1/} In 1927 the National City Bank of New York reorganized the affiliated International Banking Corporation into direct branches. In 1931 the Equitable Eastern Banking Corporation merged with the Chase Bank, a subsidiary of the Chase National Bank of the City of New York. A few local banks were incorporated under American laws, such as the Thrift and Investment

1. The American-Oriental Banking Corporation closed its doors at the end of May 1935, together with the other institutions of the Raven group (Raven Trust Co., American-Oriental Finance Corporation, Asia Realty Co.). This group was heavily involved in real estate; deposit liabilities of the American-Oriental Banking Corporation at the end of 1934 amounted to CN\$8.4 million. Finance and Commerce, May 29, 1935, June 12, 20, 1935, July 3, 24, 1935; November 11, 1935.

Finance and Trust Corporation (founded in 1927, closed in 1935), the Underwriters Savings Bank for the Far East (founded in Shanghai in 1930), the Tientsin Commercial and Credit Corporation (founded in Shanghai in 1932) and the Pacific Banking Corporation (founded in Shanghai in 1934 and reorganized in 1935). White Russians were prominent in all these banks.

As the oldest American banking institution in China, the National City Bank of New York may be regarded representative of this group. The American Express Company, Inc., which was founded in 1919, also transacted banking business in its branches.

Russian banking activities in China had been active for some time under the Tsarist régime. Following the sale of the Chinese Eastern Railway to the Puppet setup in Manchuria, the Far Eastern Bank, the financial agency of the U. S. S. R., withdrew from the Chinese market in 1935. Besides this there is now no pure Russian banking institution in existence.

In the Japanese group, the Yokohama Specie Bank stood out as the oldest and the largest. Between 1916 and 1920 private Japanese banking firms began to appear in China like mushrooms. After the closing of the Exchange Bank

of China in 1920,^{1/} eleven institutions continued to operate in China; namely, three official banks—the Yokohama Specie Bank, the Bank of Chosen, and the Bank of Taiwan; three "big" private banks—the Mitsui, Mitsubishi, and Sumitomo Banks; four local banks of Shanghai, Hankow, Tsinan, and Tientsin, and the Seiryu Bank (a Sino-Japanese subsidiary of the Yasuda interests).

In the period of military occupation, the Yokohama Specie Bank, the Chosen, and the Industrial Bank of Japan played an important role in expanding Japanese financial interests in occupied China and formed a syndicate of exclusive nature to advance loans to the various Puppet regimes, while branches of private exchange banks made no progress since they were handicapped in competing with official institutions.

The French group consisted of the Banque de l'Indochine, the Union Mobilière (a local institution with interests in Shanghai and Tientsin), and the Banque Franco-Chinoise (a joint Sino-French enterprise, heir of the Banque Industrielle de Chine). A special savings insti-

1. This bank fully paid the Shanghai deposits, but left unpaid the Peiping and Tientsin note issues. The Japanese Government refused to help the bank, and the Bank of China undertook its liquidation.

tution, the International Savings Society, was also under French law and management. Another special savings institution, the Société d'Épargne Franco-Chinoise, was transferred to Chinese ownership and control in 1923.

French and Belgian interests were combined in the Crédit Foncier pour l'Extrême Orient. In 1935 the Banque Belge pour l'Étranger reorganized its branches in the Far East into a subsidiary institution, the Banque Belge pour l'Étranger, Extrême Orient. In business the Belgian bank was more profitable than the joint French and Belgian enterprise.

Branches in China were maintained by the Dutch Nederlandsche Handel-Maatschappij and Nederlandsch Indische Handelsbank. Germany was represented by the Deutsch-Asiatische Bank. Italy was represented by the Banco Italiana per la Cina. The Banco Nacional Ultramarino of Lisbon maintained a branch in the Portuguese colony of Macao. Since the Chinese Government declared war on Germany and Italy in December 1941, the functions of their banks in China were obliged to be suspended.

Foreign banks were established either as branches and subsidiaries of large foreign institutions, or they were formed by business interests residing in China.

Direct branches were maintained by (1) institutions which had their chief interests outside China (e. g., the National City Bank of New York, the Yokohama Specie Bank, the Mitsui, Mitsubishi, Sumitomo Banks, and the Nederlandsche Handel-Maatschappij); by (2) those institutions having special spheres of interests (e. g., Chartered Bank of India, Australia, and China, the Mercantile Bank of India, the Banque de l'Indochine, the Bank of Chosen, the Bank of Taiwan, and the Nederlandsche Indische Handelsbank); and by (3) institutions with special connections and interests (e. g., the P. and O. Banking Corporation in shipping and the Moscow Narodny Bank, serving as the Russian merchants' bank^{1/}).

Subsidiaries or affiliates were set up by those foreign institutions unwilling to take more than a limited interest in the Chinese market. However, some were just a matter of system conveniently adopted by various banks, the offices of the Chase Bank were branches of an affiliate of the Chase National Bank of the City of New York, and the offices of the American Express Company, Inc. were branches of an affiliate of the American Express Company, which was in turn controlled by the Chase National Bank of the City of New York. After 1927 the P. and O.

1. This classification of the spheres of connections and interests should not be considered as rigid.

Banking Corporation was brought under the control of the Chartered Bank of India, Australia, and China. The Deutsch-Asiatische Bank, the Banca Italiana per la Cina, the Banque Belge pour l'Étranger, Extrême Orient, the Seiryu Bank, and the Banque Franco-Chinoise were subsidiaries of banks or groups of banks situated in foreign countries.

Foreign banks established by local interests residing in China originated either from commercial, shipping, individual and political interests for the purpose of acting as their financial agents, or from individuals as financial speculative ventures. The latter type of banking was quite common during the land boom of Shanghai in the early 'thirties and the American-Oriental Banking Corporation was the outstanding case. A special development among certain communities took place around 1930, with the establishment of American-registered banks controlled by White Russians (the Underwriters Savings Bank and the Tientsin Commercial and Credit Corporation) and of Japanese city banks (the Banks of Shanghai, Hankow, Tsinan, and Tientsin). The E. D. Sassoon Banking Company was set up as the agency of a most powerful financial family of Shanghai.

Ranking above all, however, was the Hongkong and Shanghai Banking Corporation. This bank was formed by the largest

shipping, trading, and engineering interests of Hongkong, and in its seventy years of life it developed a policy of close ties with the Chinese market, which could be accomplished only through a board of directors on the scene and the backing of British diplomacy. With its branches all over the Far East and in the most important markets of the world, the Hongkong and Shanghai Banking Corporation became the most powerful banking organization of foreign interests in China—a rather exceptional situation, since no other locally established bank ever developed more than a limited business within the Chinese market. The short-lived boom of the Japanese banks could not compete with this Corporation, although they had made a somewhat monopolistic advance in occupied China during the recent war. It is also doubtful whether the expanding tendency of American banks in China after the war can surpass this Corporation.

B. OTHER FINANCIAL INSTITUTIONS

Other foreign financial institutions did not develop in China so extensively as did banks. Their history was, however, not less fascinating.

The International Savings Society, a French institution with head office in Shanghai, had a large number of branches and offices in the interior and a capital of 1 million taels and 6 million francs. It used to attract a large number of savings depositors by offering lottery prizes.

Some American finance companies had their head offices in Shanghai; namely, the China Finance Corporation, Inc., with a paid-up capital of 3 million taels; the China Bonds and Shares Co., Inc., with a paid-up capital of 1 million taels; and the Shanghai Loans and Investments Co., with a paid-up capital of 1.25 million taels.

Other foreign finance companies were incorporated under the Ordinances of Hongkong; these included the International Trust Co. of China, Ltd., with a paid-up capital of Hk\$5 million, and the Commercial Investment Co.

A large number of real estate finance companies grew during the land boom; the most important of these was the Central Properties, Ltd., incorporated in Hongkong with a capital of Hk\$1.8 million, and the Shanghai Land Investment, a real estate firm closely connected with the Hongkong and Shanghai Banking Corporation with a capital of 7 million taels.

The greatest crashes in this field occurred in 1935

among American companies and involved the China Realty Company and the Haven group which consisted of the Haven Trust Company, the American-Oriental Trust Company, and the Asia Realty Company.

Most insurance business in China was in the hands of British firms. Among the few local foreign insurance companies, the two oldest were the Union Insurance Society of Canton, with several subsidiaries and with total assets of well over 25 million, and the Canton Insurance Office, Ltd., controlled by Messrs. Jardine, Matheson, and Co. (the most important shipping and commercial firm of Hongkong with interests in the Hongkong and Shanghai Banking Corporation,, having assets of more than HK 17 million. The largest local foreign firm in China, however, was the International Insurance Co., Ltd., in Shanghai, with a paid-up capital of 5 million.

Foreign stockbrokers were members of the Shanghai Stock Exchange, which merged in 1928 with the Shanghai Shareholders Association, incorporated in Hongkong. A few of the largest brokerage firms of Shanghai acted for foreign brokers.

Finally, mention may be made of the Foreign Exchange Bankers' Association of Shanghai, which was the only foreign bankers' association or organization in China. Its chief

purpose was to facilitate the operation of foreign exchange business. The office of this association was located in the Chartered Bank of India, Australia, and China.

CHAPTER THREE: MANAGEMENT AND RESOURCES

A. ORGANIZATION

Practically all foreign institutions and organizations handling monetary and financial business in China were under their own control and enjoyed unlimited liberty. Prior to the recent Sino-Japanese conflict, foreign institutions were legally restricted to the Treaty ports (i. e. those cities opened to international trade by China on the basis of treaties or by voluntary action) were prohibited from maintaining branches in the interior of the Country. Owing to the special rights of extraterritoriality, however, most foreign banks such as British, American, Japanese, French, Belgian, Dutch, and Italian, were virtually subject to their own laws. Even the few banks belonging to Germany and the U.S.S.R., which had abandoned their extraterritorial rights, and some Sino-foreign banks were permitted to operate continually in the foreign-controlled areas by agreements between China and the Treaty powers and to enjoy certain amount of privileges.

Shanghai was by far the outstanding financial center of China. Minor centers were represented by Tientsin in northern and Hankow in central China. Hongkong was the leading market

of southern China, although it was territorially alienated from China by virtue of the Sino-British Treaty^{1/} and the small island of Shansan, the Anglo-French concession at Canton, was an appendage to Hongkong. Foreign institutions operated in a few other cities; namely, in Peiping, as relics of the city's past political importance; in Chefoo and Tsingtao, two military and commercial ports of Shantung; in Foochow and Amoy (Fukien) and in Swatow (Kwantung), owing to the large flow of the overseas-Chinese remittances; and in Mengtze and Kuming (Yunnan), on the highway and railway routes between French Indo-China and China. Japan had special interest in Tsinan (Shantung). Attempts made by foreign banks to extend their activities to Chungking (Szechuan), China's war capital, were only temporarily successful.

The development of foreign banking system in China seemed quite colorful. The most characteristic element of the internal organization of a foreign bank was the "Compradore." This was the responsible representative and intermediary of the bank in transactions with the Chinese customers and correspondents, who derived his original raison d'être from the restrictions imposed upon foreign banks outside Treaty ports. He was usually a wealthy Chinese, with good

1. The Sino-British Treaty of 1842 concluded after the Opium War.

social standing and large business connections^{1/}, who was willing to take on his own responsibility the handling of a foreign bank's operations with Chinese clients under certain terms as fixed in a written agreement with the bank.

The functions of a Compradore were various: introducing new clients to the bank; collecting deposits; negotiating loans; buying drafts and orders from native banks and in the market; buying and selling coins and bank notes; countersigning loans, contracts, or promissory notes with and of Chinese firms; issuing checks in his own name on Chinese banks for account of foreign banks. For all these operations he received brokerage fees ranging from $\frac{1}{2}$ of 1 per cent to $1 \frac{1}{3}$ per cent; on special transactions the commission was fixed before the-of-year settlement.

The Compradore was required to guarantee all the transactions made through his office, and also, until November 1935, the silver stock held by the bank. A cash deposit with the bank was required; until 1932, however, land deeds, bonds, and other securities were accepted. The amount of this deposit was CN\$100,000 or more in average, on which interest of 5 or 6 per cent (a rate slightly above that paid

1. As time went by, such qualities degenerated.

on fixed deposits) was allowed by the bank. This deposit was not withdrawable except after the final settlement of all claims arising from the agreement.

It is evident that the size of the transactions guaranteed by the Compradore often ran many times larger than his deposit. Although the amount of defaults was not exactly commensurate with the amount of the transactions, the foreign manager nevertheless was required to take special precautions in dealing with Chinese customers, in addition to the guarantee of the Compradore.

In order to perform his functions, the Compradore maintained a semi-autonomous bank department for which he received a small allowance of around CN\$500 or more a month, out of which he paid his staff. The Compradore's department was formed: (a) by a group of internal employees, such as an Assistant Compradore, a cashier, who kept the keys of the bank's vaults jointly with the foreign cashier, some bookkeepers and until 1935, a silver expert, and (b) by some external employees, such as the market reporters, to give references on customers and transactions, and some money collectors, in charge of collection and delivery of money and documents outside the bank. Some minor employees, called shroffs, engaged in examining and changing coins; they

also performed other small functions. Employees could not be hired or discharged without the consent of the foreign manager, but they were responsible only to the Compradore, who in turn was responsible to the bank for losses suffered through any of their acts. The autonomy of the Compradore's department was more marked in northern China, where he used to run a banking business of his own, often not exactly distinguishable from the business made for the account and in the name of the foreign bank.

The importance of the Compradore declined during the 'thirties, since many of the reasons for his existence were gradually disappearing. The go-between nature of the Compradore status aroused many complaints from the Chinese communities in general.¹ The growth of Chinese modern enterprises made possible direct contacts between foreign banks and Chinese clients, while the progressive unification of the country and the nationalization of silver (the currency standard) restricted the amount of legal and financial risk involved in banking and exchange transactions. The obstacle of the language was lessened by the development of the knowledge of Mandarin Chinese among foreign employees,

1. Popular voice against the foreign banking practices in this respect was especially strong during the northern campaign of the Nationalist forces, 1927-'28.

and by use of English language in modern Chinese enterprises. Consequently, specified limitations were introduced on the liability of the Compradore to a certain percentage of the amount of each transaction, while the foreign still found no way to do away with the time-old system. In southern China his role in foreign trading firms was progressively transferred to independent brokers, although no such development appeared common among all banks.

With the instability of some native banks, while performed in part the role of money brokers, the foreign banks were obliged to depend upon themselves for the investment of surplus funds, and this fact contributed considerably toward placing the Compradore in a position of credit adviser rather than in that of a responsible representative of the bank. Moreover, during the 'thirties, a trend was apparent toward centralizing the authority under the control of the foreign manager, and toward limiting the duties of the Compradore to the supervision of the counter transaction performed through the Chinese staff.

B. RESOURCES

The secrecy and mysteriousness with which foreign banks treated their operations make it impossible to analyze statis-

tically their resources and transactions. Foreign banks with their head office and main interests in China could give a fair indication of the resources and had their importance not been limited—with the exception, however, of the Hongkong and Shanghai Banking Corporation. Banks with their head office outside China refrained from issuing separate statements for their Chinese branches. The statements published by subsidiaries of foreign institutions could easily be misleading, since these banks were backed by resources and connected with a range of operations far larger than that indicated.

A description of the resources and operations of the foreign banks can be attempted only in an indirect way, i. e., by examining the changes occurring in the sources of banking funds and by following the external operations of the banks. The main items of the statement of foreign banks with principal interests in the Chinese market have been tabulated with special regard to the period immediately preceeding the opening of Sino-Japanese hostilities in 1937.^{1/}

1. Only then condition was suitable for making such an analysis.

RESOURCES OF FOREIGN BANKS IN CHINA (AT THE END OF 1914)

<u>Name of institution</u>	<u>Official unit of account</u>	<u>Paid-up capital</u>	<u>Reserves</u>	<u>Deposits</u>	<u>Total assets</u>
Mercantile Bank of India	British Pound	..	..	..	..
Chartered Bank of India, Australia, and China	British Pound	..	..	..	..
Hongkong and Shanghai Banking Corp.	Hongkong Dollar	20,000,000	114,073,950	337,943,352	1,130,367,559
Banco Nacional Ultramarino	Portuguese Escudo	..	..	..	..
Deutsch-Asiatische Bank	National Yuan	5,705,000	2,004,000	39,956,931	49,058,068
Yokohama Specie Bank	Yen	..	..	..	..
Banque de l'Indochine	French Franc	..	..	..	..
National City Bank of New York	Dollar	..	..	..	..
Banque Belge pour l'Extrême Orient	Belgian Franc	30,000,000	..	34,119,354	173,139,528
Nederlandsche Handelsmaatschappij	Guilder	..	..	..	..
Seiryu Bank	Yen	..	..	..	..
Crédit Foncier pour l'Extrême Orient	Belgian Franc	70,000,000	12,009,689	15,009,112	107,003,728
Banque Franco-Chinoise pour le Commerce et l'Industrie	French Franc	50,000,000	45,000,000	253,043,383	411,935,522
Bank of Taiwan	Yen	..	..	..	..
Sumitomo Bank	Yen	..	..	..	..
Mitsui Bank	Yen	..	..	..	..
Mitsubishi Bank	Yen	..	..	..	..
Shanghai Bank	National Yuan	100,000	25,000	1,051,612	1,235,233
Bank of Chosen	Yen	..	..	..	..
American Express Company, Inc.	Dollar	..	..	..	..
Banca Italiana per la Cina	Dollar	1,000,000	199,685	1,000,179	5,029,593
Hankow Bank	Yen	250,000	133,330	1,708,517	3,128,894
Bank of Tientsin	Yen	625,000	130,300	1,640,165	4,494,276
Bank of Tsinan	Yen	250,000	..	..	..
Nederlandsch Indische Handelsbank	Guilder	..	..	..	..

—Continued from the foregoing page—

<u>Name of institution</u>	<u>Official unit of account</u>	<u>Paid-up capital</u>	<u>Reserves</u>	<u>Deposits</u>	<u>Total assets</u>
Chase Bank	Dollar	..	..	..	..
P. and O. Banking Corporation	British Pound	..	..	..	..
Union Nobiilière Société Française de Banque et de Placement	National	2,000, 000	209, 442	1,074, 285	4,377,181
E. D. Sassoon Banking Co.	British Pound	500, 000	175, 000	4,790, 163	7,361,519
Underwriters Savings Bank for the Far East	National Yuan	500, 000	125, 000	2,670, 268	3,604,004
Finance Banking Corp.	Halkwan Tael	200, 000	..	..	..
Hientsin Commercial and Credit Corp.	National Yuan	50, 000	1,162	261, 750	722,586
Moscow Narodny Bank	British Pound	..	..	..	..

Source: Annual reports of the banks, 1936; Ju-lin Foo, "Banking",
The Chinese Year Book, Shanghai, 1937, p. 536; The Chinese
Bankers Year Book, 1936.

1. CAPITAL.—It appears that there was a great variety in the proportion between capital and reserves, and between total capital funds and earning assets in many cases. The Hongkong and Shanghai Banking Corporation accumulated assets totaling about HK\$1,000 million over a paid-up capital of only HK\$20 million and a reserve of HK\$100 million (of which about HK\$90 million was maintained in sterling). A similar proportion between capital funds and assets of approximately 1 : 10 may be observed in the T. D. Sassoon Banking Company, and was probably fairly general in the case of other British and American banks. European institutions had capital funds ranging from one seventh (Deutsch-Asiatische Bank) to four fifths (Crédit Foncier d' Extrême Orient) of their total assets. Japanese banks showed an average ratio of 1 : 7. Branches of banks with their main activities outside of China worked chiefly on the basis of their own local resources, with no special appropriation of funds from the head office.

2. DEPOSITS.—As a general rule, foreign banks in China accepted current, or demand, accounts and fixed, or time, deposits in the common form used abroad. Japanese banks also the so-called "special current accounts" which differed from the usual current account in that they were withdrawable only by passbook entries and were, therefore, less frequently

drawn upon than the checking accounts. Deposits were made and accounted in various currencies, mainly in the official currency of each bank, but also in other foreign currencies, in the Chinese national and / or local currencies and, until 1933, in taels. As a consequence, changes in the figures of deposits, as they appeared in bank statements, partially reflected the changes which occurred in the exchange rates between the official currencies used by the banks and any other currency in which deposits were accounted. Figures of increase or decrease in deposits tended, therefore, to be misleading, especially during periods of monetary disturbance. With these basic limitations, it is apparent that deposits in foreign banks expanded steadily until 1930; in the following years they maintained a rather stable level with minor oscillations and a certain tendency to contract. In 1930 the Hongkong and Shanghai Banking Corporation showed current accounts amounting to Hk\$329.4 million and fixed accounts amounting to Hk\$295.9 million; at the end of 1936 its deposits amounted to Hk\$649.3 million and Hk\$138.6 million respectively.

With regard to deposits of branches of foreign institutions, no information is available. But the account undoubtedly was very large, particularly in the case of British and American banks, which were almost the traditional depositaries

for the Chinese capitalists. The deposits were largely in the form of current accounts, although trust funds amounted to considerable sums in a few instances.

According to their source, deposits may be classified into: (a) official and (b) private.

(a) Official Deposits— were the funds kept for the account of public authorities, either foreign or Chinese. Most of the foreign banks acted as Treasury agents for their respective Governments and, by reasons of political relations and by right of extraterritoriality and autonomous administration, they administered the funds of their national diplomatic, military, and judiciary authorities located in China.

These funds usually ran into substantial figures. The expenditures of foreign Governments in China were estimated at around CN\$100 million^{1/} (or \$50 million) during a normal pre-1937 year. Funds of the foreign municipalities and agencies of foreign concessions were likewise administered by foreign banks. In the year preceeding the Sino-Japanese conflict, the total income of the International Settlement and of the French Concession in Shanghai amounted to about CN\$40 million, and that of the other foreign concessions (in Tientsin: British, French, Italian,

1. This estimate was made by L. Kann.

and Japanese; in Hankow: French and Japanese; in Canton: British and French; and in Amoy: the International Settlement) amounted to about CN\$5 million;^{1/} the revenue of the British colony of Hongkong was slightly less than Hk\$50 million, and that of the Portuguese colony of Macao was about CN\$5 million.

The payments of the Boxer indemnities^{2/} were originally included among the official deposits with foreign banks. The German, Austrian, Russian, and Italian indemnities ceased to exist to all intents and purposes by 1934. The first two were canceled by the war and the other two were unconditionally remitted in 1924 and 1933 respectively; all four were used until January 1936 as security for China's internal loans. The French and Belgian indemnities were fully converted into two separate foreign loans in 1925 and 1928, and a foreign loan was issued on a share of the British indemnity in 1934. The Japanese indemnity continued to be paid in sterling to the Yokohama Specie Bank in London, the annual payment amounting to £393,897. All other portions were remitted to China under various agreements (with

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1. All the settlements and concessions were taken over by the Chinese Government after concluding consecutively new treaties with various countries for the purpose of abolishing extraterritoriality and other privileges since the inauguration of the National Government.
 2. The Boxer indemnities were originated from the Peking Protocol of 1901.

the United States in 1908 and 1925, with Great Britain in 1930, and with the Netherlands in 1933) and were placed under the administration of Sino-foreign boards of trustees. The funds were thereafter deposited with the Central Bank of China and other Chinese modern banks, and the only balance which continued to pass through the foreign banks was that used for services of foreign loans or for other purposes abroad.

During the 'twenties, the Hongkong and Shanghai Banking Corporation held customs and salt receipts (with minor portions allotted to the Banque de l'Indochine and to the Yokohama Specie Bank), which served as security for the payments of the principal and interest on foreign loans. At the end of 1928 the National Government carried on a reorganization of the Salt Inspectorate and of the Customs General Inspectorate, and placed them under the immediate control of the Ministry of Finance. At the same time the custody of the revenue, which was entrusted to the Inspectorates, was transferred to the Ministry of Finance, which in turn deposited the main portion of the funds, the ordinary balance of which averaged more than CN\$100 million, with the Central Bank of China. In 1932 the transfer of the balance to the Central Bank of China was

was completed and only pension funds of the foreign personnel continued to remain on deposit with foreign banks.

Other official funds of a similar kind were the sums deposited on account for foreign loans. Various loan agreements required that deposit of installments for payments of interest or principal be made at least fourteen days and sometimes twenty days or more before the date due, and the administrations of various railways were further required to deposit with the serving banks all surpluses of the net revenue up to an amount sufficient to cover the following year's installments of interest and principal. In some cases all the receipts had to be deposited with the serving bank.

The loans secured by the revenue of the Maritime Customs were constantly honored. Three foreign loans issued with the security of the remitted portions of the Boxer indemnity (on the French, Belgian, and British shares). In 1937 total installments and interest on all loans with charges on the customs amounted to \$2.5 million and to \$4.4 million, payable into the Hongkong and Shanghai Banking Corporation, the Banque Belge pour l'Étranger, the Banque de l'Indochine, the Yokohama Specie Bank, the

Banque Franco-Chinoise, and three Government banks (the Central Bank of China, the Bank of China, and the Bank of Communications). Of the loans secured on the salt revenue, only the China Imperial Government 4 Per Cent 5 Per Cent Gold Loan of 1909 was regularly serviced to the Hongkong and Shanghai Banking Corporation and the Banque de l'Indochine. The Crisis Loan of 1912 remained in arrears with capital installments, but it was entirely covered in 1936 and 1937, payments being made to the Chartered Bank of India, Australia, and China and to the Hongkong and Shanghai Banking Corporation.

All the railway loans/in default between 1900 and 1938, on both principal and interest, with only three exceptions.^{1/} Important readjustments of loans in default took place in 1936 and 1937 by agreements between the Ministries of Railways and Finance and the creditors represented by foreign banks (the Hongkong and Shanghai Banking Corporation, the Deutsch-Asiatische Bank, the Chartered Bank of India, Australia, and China, and the Banque Belge pour l'Étranger). Overdue interest was

1. Loans on which full payments were maintained were the China Imperial Railway 5 Per Cent Gold Loan of 1909 (Aeling-akden railway), the Imperial Chinese Government 5 Per Cent Shanghai-Hangchow-Tsingpo Railway Loan, and the 6 Per Cent Treasury Notes of the Tsingtao Railway.

either canceled or reduced. In the latter case, two different methods were applied. First, a new interest-bearing bond was issued equal to one fifth of the accumulated overdue interest. Second, a non-interest-bearing bond was issued for the overdue interest, calculated at a rate lower than that originally owed on the principal. Repayment of the capital was spread over a long period from twelve to fifty years, beginning 1933, 1937, and 1940. New interest rates were fixed at $1\frac{1}{2}$ to $2\frac{1}{2}$ per cent, later to be increased to 4 and 5 per cent.^{1/}

It is impossible to estimate the net balance which was kept by the foreign banks in official accounts during the years prior to 1937. It was certainly very large and played an important part in their operations, since it provided the banks with fixed funds of charges, which could be invested on especially good terms.

(b) Private Deposits—originated chiefly from foreign nationals and from Chinese capitalists. Local American banks particularly attracted small savings from the White Russian community.^{2/} The largest amount, however, was represented by the current accounts of foreign firms and by the funds of foreign religious, educational, and

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1. All the loan transactions deserve a more detailed discussion. Brief mention will suffice for our present analysis. Materials are drawn largely from official documents.
 2. The American-Oriental Banking Corporation, for instance, had some CN\$3.5 million of Russian deposits, out of CN\$8.3 million of total deposits.

charitable institutions. Business investments and non-profit property owned by foreigners were estimated by Remer in 1931 at slightly less than \$2,000 million, Hongkong included, but Manchuria excluded, and approximately \$10 million or \$15 million was annually remitted to China from abroad for religious and charitable purposes. Foreign activities in China therefore supplied a substantial amount of current deposits to foreign banks.

Deposits from the Chinese may be grouped under three items. First, deposits of Chinese firms declined after 1930, when modern banks began to offer the same facilities on fair security and on better terms than foreign banks were able or willing to provide. Moreover, since the payment of customs duties was made through the Central Bank of China after 1928, and Customs Gold Units beginning 1930, Chinese as well as foreign firms became accustomed to maintain a current account in Customs Gold Units with this bank, instead of an account in taels with the Hongkong and Shanghai Banking Corporation, as they did previously.¹ Second, savings of officials, politicians, warlords, and of the

1. The Customs Gold Units was an accounting currency with a gold content of 80.1866 centigrams, which was substituted in 1930 for the Haikwan Tael, previously used as the customs accounting currency. The exchange of the C.G.U. with the other currencies was fixed daily by the Central Bank of China.

bourgeois elements of China in general continued to represent the bulk of the fixed deposits, especially in the case of the Hongkong and Shanghai Banking Corporation and of the National City Bank of New York. Third, the so-called "bad money," or wandering funds searching temporary safety, had accustomed in foreign banks to a considerable extent throughout the political crises of China.

In general, it may be said that the supply of funds to the foreign banks was always abundant, although there was no definite increase and a decrease was somewhat noticeable during the years immediately preceding 1937. A surprising increase of deposits in the foreign banks during the recent war due to the flight of capital should be regarded as only a temporary phenomenon.

3. SILVER STOCKS—Before the monetary reform of 1935, foreign banks used to keep their reserves in silver bars and coins; they were the money bags of the country, through which all international movements of white metal were passing. In 1921 nearly 70 per cent of the silver stocks of Shanghai was held by the foreign banks, but in the following years their importance as money-keepers was somewhat lessened, and in 1931 they held only 57 per

cent of the Shanghai silver stock. During the two years following, as a result of the spectacular inflow of silver into the vaults of Shanghai, holdings of the foreign banks rose to 50 per cent of the total. A reversal in the trend followed very rapidly in 1934, however, when silver was exported at unprecedented speed. Stocks in Shanghai were depleted until April 1935, when a "gentlemen's agreement" between foreign banks and Chinese authorities was reached in order to restrain the banks from making further shipments of silver abroad. It is impossible to state how effective the agreement was, since despite the fact that little silver was left in Shanghai, the decline in the stock of the foreign banks continued. It fell from CN\$55 million at the end of April to CN\$36.7 million in September 1936. This decline, however, may have been caused by buying operations of the Government banks, in order to cover their expanding note issue and for shipments to the interior, where the stocks had been depleted by exports and hoarding.^{1/}

4. ISSUE OF BANK NOTES—The silver stocks were kept by foreign banks both as general banking reserves and as special reserves against the note issues. The circulation of bank notes issued by the foreign banks was both general and lo-

1. Vide Chapter Five for more discussion.

gally unrestricted. Foreign bank notes may be divided into two groups: bank notes issued in territory under foreign sovereignty, and bank notes issued in Chinese territory. To the first type belonged the notes issued in Hongkong, Dairen, and abroad; the second type consisted of the notes issued by the offices of foreign banks situated in China.

Bank notes were issued in Hongkong by three banks, the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia, and China, and the Mercantile Bank of India. Their total note issue in June 1937 amounted to Hk\$188.5 million, of which about Hk\$30 million to Hk\$40 million was estimated to be in circulation in southern China. A small amount of notes issued by the International Banking Corporation were in circulation in Canton. Notes issued by the Banque de l'Indochine in French Indochina and through its agencies in China circulated in Yunnan and Kwangai.

The Yokohama Specie Bank used to maintain a silver note issue in yen from its office of Dairen, and these notes circulated among Japanese in northern China along with those of the Bank of Chosen. Notes issued by the Bank of Taiwan circulated among Japanese residents in southern

and northern China.^{1/} Yen bank notes of the Bank of Japan appeared in circulation in Shanghai at the end of 1935, with little success. During the Japanese military occupation of China, however, Japanese military notes issued by the Yokohama Specie Bank and the Bank of Japan spread all over the areas under their control.

At the middle of 1935 some CN\$5 million in foreign bank notes was in circulation in Shanghai and about CN\$1.5 million in Tientsin. These had been issued by the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia, and China, the Mercantile Bank of India, the International Banking Corporation, the Banque Belge pour l'Étranger and, for very small amounts, by the American-Oriental Banking Corporation and the Deutsch-Asiatische Bank. Foreign bank notes were also in circulation in Hankow (Hupei), in Changsha (Hunan) and in a few other cities with foreign bank offices. However, the circulation of foreign bank notes was noticeable only in southern China, where the Hongkong dollar remained the general medium of exchange

1. Japanese notes were withdrawn from Manchuria beginning 1937 as part of the plan to introduce a unified currency issued by the so-called Central Bank of Manchou under the puppet régime.

for the foreign community and for all inter-port transactions, and to a lesser extent in Tientsin, where foreign traders and foreign residents were still dominant.

In general, in 1936-1937 the problem of foreign currency seemed to have lost its traditional importance, though not being entirely out of existence. The years following witnessed a temporary disturbance caused by the intrusion of Japanese military notes as well as bank notes.

CHAPTER FOUR: OPERATIONS AND ACTIVITIES

There was hardly any legal restriction imposed upon the operations and activities of the foreign banks. To say the least, most foreign banks could function like a wild horse. For instance, the Hongkong and Shanghai Banking Corporation was authorized, by the chartering Hongkong Ordinance, to carry on "the business of banking, and as auxiliary thereto the other business," contained in twenty-three long paragraphs of Article 3 of the bank's regulations. No limitation whatever was set on operations, investments, securities, transactions, promotions or on "all such other acts and things in all parts of the world as shall seem to the bank incidental or conducive to the attainment of the above objects or any of them."^{1/}

Their operations and activities may be classified as follows:

A. FOREIGN LOANS AND INVESTMENTS

After the Taiping Rebellion and the troubles with foreign powers between 1840 and 1860, the Chinese Imperial Government of the Manchu Dynasty found it no longer possible to maintain the customary policy of meeting public expendi-

1. Ordinance and Regulations of the Hongkong and Shanghai Banking Corporation, Hongkong, 1929, p. 80.

tures on a cash basis and thus began to gradually rely upon internal loans and foreign banks^{1/}. The first foreign loan was made in 1865. In 1874 loans to the Chinese Imperial Government were by the British-chartered Oriental Bank Corporation. Between 1875 and 1897, about ten loans advanced by the Hongkong and Shanghai Banking Corporation. These loans consisted of limited sums of silver and gold, for military purposes and payment of indemnities. They carried annual interest rates from 8 per cent to 9 per cent and were regularly repaid. So far no political loans of great importance were floated; and no pressure was exercised by the financial institutions over the Chinese Government.

Henceforth the dependence of China upon foreign loans and foreign financing increased rapidly. After the Sino-Japanese War in 1895, loans to the Chinese Imperial Government by the foreign banking firms enormously expanded. Two war loans were issued by the Hongkong and Shanghai Banking Corporation. In 1895 the Cassel Loan was floated by the Chartered Bank of India, Australia, and China. In the same year the Hongkong and Shanghai Banking Corporation entered into an agreement with the Deutsch-Asiatische Bank

1. Vinacke, H. M., op. cit., pp. 42-62.

for joining financing of the Chinese Government'. Three loans were issued under this arrangement; in 1893 and 1898 for payments of the indemnity to Japan, and in 1905, the only loan then connected with the Boxer Indemnity. The conditions of the 1893 loan were particularly onerous, as for the first/^{time} serious limitations were placed upon China's tariffs and use of customs revenues.

Foreign banks were very active in the financing of railway construction and in the "scramble for concessions"^{1/} connected with it. In 1898 the Hongkong and Shanghai Banking Corporation formed the affiliated British and Chinese Corporation, Ltd., for the financing and management of railways and industrial enterprises. These interests remained in control of the investment market during the following ten years and took over four issues for a total amount of \$7.7 million at an interest rate of 5 per cent and at prices varying from 90 to 95 for each 100 nominal value.

A somewhat similar relationship existed between the Banque Belge pour l'Etranger and the Compagnie Générale de Chemins de Fer et de Tramways en Chine (Brussels). Issues made in 1903 and 1907 through this combination were subscribed by Banque de Paris et des Pays Bas. The Chartered

1. Steiger, G. N., A History of the Far East, New York, 1944, pp. 678-682.

Bank of India, Australia, and China served as Far Eastern representative for the so-called "Peking group," a financial and industrial combination controlled by Iloyds Bank. The Russo-Chinese Bank, in addition to financing railway lines in Manchuria, backed a Belgian group with French capital in 1897 and took over a loan for railways in Shansi in 1900.

After 1908 the exclusive British predominance gave way to forms of associated control. In 1905 the Hongkong and Shanghai Banking Corporation and the Banque de l'Indo-chine formed a subsidiary company, the Chinese Central Railways Company, Ltd., and in 1908 the two banks underwrote jointly a £5 million loan. In the same year the Anglo-French group was joined by the Deutsch-Asiatische Bank, and between 1908 and 1912 the new combination underwrote railway issues amounting to about £11 million. In 1910 American interests, represented in the market by the International Banking Corporation, joined the combination for underwriting the Hukwang Railway Loan of 1911, amounting to £10 million, which, however, never materialized. In 1912 the Russo-Asiatic Bank (successor of the Russo-Chinese Bank, liquidated in 1905) and the Yokohama Specie Bank were admitted into the group as

representatives of financial and political interests of their respective countries. In 1913 this first "Consortium"^{1/} subscribed the Reorganization Loan of the Chinese Republican Government, amounting to \$25 million; on the eve of the conclusion of the negotiations the American group withdrew for political reasons, leaving the other five banks (Hongkong and Shanghai Banking Corporation, Deutsch-Asiatische Bank, Banque de l'Indochine, Yokohama Specie Bank, and Russo-Asiatic Bank) as signatories of the convention.

Despite the existence of this consortium, independent institutions continued to participate actively in investments in China. The Chartered Bank of India, Australia, and China played a prominent part in the \$5 million Crisp Loan issued in 1912. The Yokohama Specie Bank underwrote an issue in 1911 for an amount of ¥10 million. The Banque Belge pour l'Étranger arranged a loan to the Compagnie Générale de Chemins de Fer et de Tramways en Chine in 1915 for a stipulated amount of ¥10 million, of which only ¥4 million was actually issued. The Banque Industrielle de Chine, formally a Franco-Chinese joint enterprise, began its

1. Field, F. V., American Participation in China Consortiums, Chicago, 1931, pp. 1-119.

activities in 1913, and in 1914 it subscribed to a loan of 150 million French francs, of which only two-thirds were placed on the market.

During the First World War, Japanese banks started an extensive development in China. In 1915 the Bank of Taiwan, the Bank of Chosen, and the Industrial Bank of Japan established a joint syndicate, which, through the Exchange Bank of China, became responsible for the so-called "Hishihara loans." These loans were granted to departments of the Central Government at Peking,^{1/} to provincial governments,^{2/} and to other authorities and enterprises.

Of chief importance among these were the loans secured by stock of the Bank of China and the Bank of Communications, amounting to about ¥ 50 million. Officially all loans were made for economic purposes, actually with a view to political interests.^{3/} Although the term "Hishihara loans" is limited, strictly speaking to the loans contracted by a Mr. Hishihara, of the Bank of Chosen and personal representative in China of Premier Count Teruchi

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1. Ministry of Communications, Ministry of Finance, others unspecified.
 2. Kwangtung, Fukien, Hunan, Shantung, Chili, Fengtien, and Kirin.
 3. It was the time when Japan presented the "Twenty-one Demands" to the Chinese Government.

of Japan, it covers, broadly speaking, all the unsecured or inadequately secured loans made by this syndicate during the First World War. The amount of these loans is not definitely known,^{1/} and Remer's estimate of approximately ¥1.0 billion, based upon that of the Chinese Financial Readjustment Commission of 1927, is probably below the real sum advanced.^{2/} The policy of the syndicate also involved restrictions upon the activities of the Yokohama Specie Bank in China and the granting of new rights to the Bank of Chosen. The Yokohama Specie Bank joined other banks of the Consortium in protesting certain activities of Mr. Hishihara.^{3/}

American withdrawal, World War, and maneuvers of the Japanese banking syndicate considerably decreased the importance of the Consortium of 1912. Toward the end of the War it seemed that conditions were favorable for its reorganization, which was achieved in 1920. The American group was admitted again, and the number of members was enlarged perhaps beyond its needs, although some important independent syndicates continued to remain out-

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1. Since the transactions were not well secured.
 2. Remer, J. F., *op. cit.*, pp. 340"; Bolton, W. H., *Japan, an Economic and Financial Appraisal*, Washington, 1931, pp. 210, 531, and 735-7.
 3. Young, C. J., *Japan's Special Position in Manchuria*, Baltimore, 1931, pp. 242-4; Remer, J. F., *op. cit.*, pp. 280-89.

side (Crisp and Belgian Syndicates, for instance). Japan participated with the explicitly stipulated condition of a free sphere of influence in Manchuria. China, however, never recognized the new Consortium, and when in financial need she tried to obtain loans from other sources.^{1/}

In 1923 a Japanese banking syndicate advanced about ¥40 million to the Chinese Government through the Yokohama Specie Bank for refunding purposes. This bank played an important part in the financial readjustments arising from the return of the Shantung province to China, and in this connection it issued two loans in 1922 and 1923,^{2/} totaling ¥84 million.

The Banque Belge pour l'Etranger arranged a loan from the Société d'Interprise en Chine for supply of railway material up to an amount of £5 million, of which only £300,000 was used during 1922 and 1923. In 1920-1922, the Banque Belge pour l'Etranger and the Nederlandsche Handel-Maatschappij issued Chinese Treasury notes totaling 180 million Belgian francs and 21 million florins for the account of the Compagnie Générale de Chemins de Fer et de Tramways en Chine and of the Nederlandsche Syndicaat

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1. Bemer, C. F., op. cit., pp. 323-32; Field, T. L., op. cit., pp. 118-99; Carnegie Endowment for International Peace, The Consortium: The Official Text for the Four Powers' Agreement for a Loan to China and Relevant Documents, Washington, 1921, pp. 76.
 2. The return of the Shantung province to China was the result of the Washington Conference.

Voor China. The Vickers loan of £13 million was contracted through the Chartered Bank of India, Australia, and China and the London Lloyds Bank in 1919. In the same year the Continental and Commercial Trust and Savings Bank of Chicago (one of the partners of the Asia Banking Corporation) issued Chinese Treasury notes amounting to CN\$ 5 million. In 1922 and 1925, the Banca Italiana per la Cina negotiated on behalf of the creditors a settlement of the former Australian loans (the so-called Skoda Loan), involving £8.9 million. Foreign lending came to a standstill after 1925 when, due to defaults, the divided authority of the Consortium and the chaotic political situation, Chinese credit sank to its lowest level, while the usually active foreign banks were in a state of hesitancy before the advancement of the Nationalist campaigns launched from the south.

Under the National Government, which was established in Nanking in 1927, only three new issues of foreign bonds were made through foreign banks, namely, the Chinese Republic 6 Per Cent Loan of 1928, the Chinese Government 25rd Year 6 Per Cent Pound Sterling Indemnity Loan of 1934, and the Chinese National Government 6 Per Cent

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1. Since it was the announced policy of the new Government not to pile up foreign obligations, contacts with foreign banks were made prudently.

Shanghai-Ningpo-Hankow Railway Completion Loan Of 1936.^{1/}

During the emergency period of the Second World War, loans were contracted directly with the Allied Governments instead of with private banks.

Foreign banks were the natural credit agencies of foreign communities in the Far East. The types of credit and the procedure of granting it lacked the strict requirements demanded by banks in western countries. In general, while some banks (such as the British) lent assistance to promoters of commercial and industrial enterprises, other banks, especially the branches of American banks, limited themselves to the financing of existing enterprises on a short-term basis.^{2/}

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1. The Chinese Republic 6 Per Cent Loan of 1928 was issued at a price of 82, for a total amount of CN\$45.9 million, through the Banque Belge pour l'Étranger, redeemable by amortisation between 1928 and 1941. The Chinese Government 23rd Year 6 Per Cent Pound Sterling Indemnity Loan of 1934 was issued at a price of 90, for a total amount of £1.5 million, redeemable in twenty-five years beginning in 1935, through the Hongkong and Shanghai Banking Corporation, the Central Bank of China, and the Bank of Communications. The Chinese National Government 3 Per Cent Shanghai-Ningpo-Hankow Railway Completion Loan of 1936 was issued at a price of 94, for a total amount of £1.1 million, secured on the revenue of the line, redeemable in twenty-five years beginning in 1941, through the British and Chinese Corporation (Hongkong and Shanghai Banking Corporation) and the China Development Finance Corporation (Bank of China, the Central Bank of China, and the Bank of Communications).
 2. Lee, F. F., Currency, Banking, and Finance in China, Washington, 1926, pp. 117-9; American Economic Mission, American Trade in the Orient, New York, 1935, p. 65, for criticisms.

Loans on real estate and investments, either made directly or through finance and real estate companies, were common practice to various extents before 1932, but afterwards this type of credit nearly ceased and new advances were then limited to 30 or 40 per cent of land values. The extent to which foreign banks were connected with this type of credit is unknown. It is believed that only 10 per cent of the funds of the Hongkong and Shanghai Banking Corporation were invested in real estate, with special preference for the Hongkong public utilities, particularly wharves. In some cases such investments assumed speculative proportions; e. g. the American-Oriental Banking Corporation, and brought about bankruptcy to the institution. Savings banks, such as the Crédit Foncier d'Extrême Orient, carried 50 to 70 per cent of their total assets in mortgage deeds and real properties throughout the depression. The French institution, the International Savings Society, utilized its funds in various ways: loans to members amounted to 36 per cent of the total; loans to and investments in foreign enterprises in China accounted for 31 per cent; investments in and loans on Chinese Government bonds and Treasury notes made up 17 per cent, and loans and investments in real estate comprised 16 per cent.

Investments in bonds and shares usually were important in a foreign bank's portfolio. At the end of 1936 the Hongkong and Shanghai Banking Corporation had more than Hk \$200 million, or one third its assets, invested in British, Indian, colonial and other securities. Advances were made to individuals and brokers on Government or private securities, with special preference for those with a worldwide market and which were officially quoted on national stock exchanges. Certain local foreign securities were also usually acceptable as collateral for loans. These included public utilities such as Shanghai Power, Shanghai Waterworks, Shanghai Telephone, L'Energie Electrique de Tientsin, and a few land debentures, in addition to rubber shares in Shanghai and Philippines, gold mines shares in Hongkong.

B. FINANCING OF FOREIGN TRADE

The largest part of credit operations of foreign banks was connected with the financing of foreign trade. Uniform rules did not exist, but some customs were generally followed. While the statistical figures of the foreign banks along this line of business are various from year to year, the methods they adopted can be dealt with in details in order to show their significance.

In export financing, foreign banks granted so-called "packing credits" to the exporter in the form of overdrafts. The amount of these credits was supposed to cover only the expenses of packing and shipping the goods, but in effect it also covered the purchase of the goods, since it was granted up to about 80 per cent. of the value of the merchandise and was generally renewed or extended or extended at maturity. These overdrafts were secured either by specified goods or by all the exporter's goods kept in his own go-down (warehouse) and in the go-downs of the bank and others. The interest charged varied from 5 to 7 per cent a year. In the case of packing credits granted by overdraft on unspecified goods, an unscrupulous exporter could obtain multiple advances on the security of the same goods from various banks and leave the creditors with the low priced goods after selling out the most marketable merchandise.

When the goods were ready for shipment, several forms of financing were open to the exporter. He could obtain a letter of credit from the importer and settle the packing credit by delivering to the bank a bill of exchange drawn on the importer, together with the shipping documents. The letter of credit was seldom used, however, and when export credit was obtained through the foreign importer, it was

normally in the form of the so-called "documentary credit."^{1/}
 This instrument has been defined as an authorization by the
 importer (abroad) to his banker (in China or abroad) to make
 certain advances to the exporter (in China) on the responsi-
 bility of the importer. It was in effect a special type of
 irrevocable confirmed credit opened by a bank at the instance
 of an importer in favor of an exporter. The bank agreed to
 make advances on the bills the exporter might draw on the
 importer, and the importer agreed to accept and to pay such
 bills at maturity, up to a certain amount and against delivery
 of the shipping documents issued on the exported goods, duly
 hypothecated in favor of the bank and kept as security for the
 payment of the bills. The packing credit could therefore be
 settled through the bills drawn by the exporter upon the for-
 eign importer and paid by the bank credit in the name of the
 importer. Since the exporter, on the other hand, was not relieved from the liability attached to the
 drawer of a bill of exchange, the bank was covered by the
 security of a joint responsibility.

More usual, however, was the issue of the "trade receipt."

The bank which opened the packing credit permitted the shipment

1. Spalding, W. F., Eastern Exchange, Currency, and Finance,
 London, 1919, pp. 360-7; Spalding, W. F., Foreign Exchange
 and Foreign Bills, London, 1932, pp. 231-2.

of the goods in question against delivery of the shipping documents and acceptance of a trust receipt by the exporter, by which the exporter agreed that the goods shipped would continue to remain as security for the loan. If delivery of documents from the bank to the foreign importer took place against cash payment, this risk assumed by the bank was limited. But usually the bank delivered the documents to the importer against his endorsement of the trust receipt issued by the exporter, and authorized the importer to move the goods still unpaid to a warehouse for his own account. However, if all goods deposited in the importer's warehouse were previously hypothecated for overdrafts or loans granted to him by other banks, the bank which financed the export on the trust receipt lost the privileged security of the goods, which became part of the security for the overdrafts or loans granted by the other bank to the importer. This system of trust receipt was in existence from the beginning of foreign business intercourse in the Orient, and contributed greatly toward the development of foreign trade in China, but it had no foundation in law and was never recognized by the British courts.^{1/}

Trust receipts, as well as packing credits, were

1. British courts denied any legality to the trust receipts. Vide comment by C. Mischer, Finance and Commerce, September 28 and October 5, 1932.

both based on personal confidence, which characterized the special way of dealing in the Orient among both the foreign and native communities. They also evidenced the manner in which the foreign banks indulged in fishing for profit from China's foreign trade.

Import financing was also done in different ways. If the importer was a local foreign firm, credit was usually granted directly by a local foreign bank. If the importer was a Chinese firm, credit was customarily granted by a native bank and transferred to a foreign bank through the issue of a native bank order. This method of financing lost importance, however, when circulation of the native bank order became restricted and modern banks began taking over the direct financing of imports.

American firms usually required a confirmed bank credit and payment against delivery of the shipping documents. In most cases the financing of imports was handled by the foreign exporter, who secured a documentary bank credit, on a joint responsibility of the exporter and the importer. Terms ran from 90 to 120 days for consumption goods, to two years or more for capital goods. These and other facilities, such as installment payments and combined barter transactions, were common especially among British, Belgian, French, German, and Japanese

banks which were connected with engineering works and commercial and shipping enterprises.

An important development in the British system of commercial credit to China took place in 1936. The British official Export Credit Guarantee Department agreed to assume the risk on a given percentage and for a given total amount of exports to China, in order to relieve the British manufacturer from unbearable losses. The precise terms of the guarantee remained secret. A special office was established in Shanghai until 1941 for the examination of the applications made by British firms. This method may be considered as a combination of insurance and Government subsidy. The purpose is obviously for expanding exports into China.

As a matter of fact, the facilities offered to foreign trade in China were always larger than in any other country. The danger usually consisted of over-trading positions, rather than credit difficulties. During 1932, for instance, when prices were slackening rapidly, importers were accumulating large stocks of goods financed through documentary credits, the ultimate risk thus being placed upon the foreign exporter. Proposals were made to the banks at the time to require

a special margin from the importer—a cash deposit, a native bank guarantee, or a cash payment of 25 per cent of the credit. However, the foreign banks were unable to reach any agreement, owing to the intense competition existing among them. During the following years facilities for foreign trade were partially taken over by the Chinese modern banks which were engaged in the foreign field.

C. TRANSFER OF FOREIGN AND CHINESE REMITTANCES

The transfer of foreign remittances by foreigners and Chinese to China was another important operation of the foreign banks. According to Remer, remittances from overseas Chinese increased from an annual average of CN\$9 million during the period 1871-34 to CN\$200 million during the period 1914-30. Other remittances and expenditures, to and from China, such as missionary and beneficial remittances, diplomatic, tourists, students, and travelers' expenditures, amounted to about CN\$250 million in 1928. In the years immediately preceding the Sino-Japanese hostilities, remittances from Chinese abroad were estimated at CN\$250 million to CN\$300 million (or approximately US\$85 million). Large parts of these re-

mittances came from the South Seas and southern Asia, and these were made through the Hongkong and Shanghai Banking Corporation, the Nederlandsch Indische Handelsbank, and the Banque de l'Indochine; from Formosa and Japan through the Bank of Taiwan, and from the United States through the National City Bank of New York and the Chase National Bank of New York. The sums remitted through modern banks, such as the Bank of Canton, the Chinese Overseas Bank, the Bank of East Asia, a few native banks and the overseas branches of the Bank of China were not of great importance before 1936.

Remittances were almost exclusively collected in a few ports; namely, Hongkong, Swatow, and Amoy, since most of the overseas Chinese were from the Kwangtung and Fukien provinces. They were traditionally accounted in Hongkong dollars and transferred to the interior through Chinese banks. In handling remittances, the foreign banks were in a more favorable position than the modern banks, owing to a larger net of branches outside of China, and to the fact that overseas Chinese were accustomed to send their savings through Hongkong. The introduction of the national currency in southern China and the establishment of foreign branches by the Bank of China and of foreign correspondents by

the Kwangtung Provincial Bank resulted in a division to modern banks of a portion of the remittances after 1955.

D. MANAGEMENT OF EXCHANGE RATES

The issue and payment of drafts in foreign currencies requires a previous operation; namely, the fixing of the exchange rate at sight and forward. In the 'twenties the Chinese market was entirely dependent for it upon the foreign banks. The opening rates of the Hongkong and Shanghai Banking Corporation were published at 9:30 a.m. in Shanghai and at 10 a.m. in the other branches, and these were accepted as the official quotations in the market. They were expressed in sterling on the basis of T/T rate on London, while for other currencies the London cross-rate was used. In 1930 the National Government introduced the Customs Gold Unit, an accounting currency based on a hypothetical pure gold content of 60.1866 centigrams (equivalent to the gold weight of the "Sun," the monetary unit proposed by the Kemmerer Commission), and the Central Bank of China began quoting its exchange rate in taels and yuan on the basis of the T/T rate of Shanghai on New York.^{1/}

After the United States went off gold and the exchange

1. The Chinese Year Book, 1955-56, pp. 1270-2.

rate between Shanghai and New York could no longer be used, two important changes took place. Beginning in March 1934 the exchange of the Customs Gold Unit in silver yuan was calculated according to the London rate of gold ingots on the previous day and the T/T spot rate on London. After September 1934, the daily rate of the Customs Gold Unit thus established was used for figuring the standard price of gold in the Shanghai market, on the basis of which settlement could be legally effected for incomplete forward gold transactions and "no opposition could be brought to the fore by either party."^{1/} The steps taken by the Central Bank of China tended to bring the exchange of the silver under its control and to restrict the opportunity for arbitrage operations, as these were effected through fictitious buying and selling of gold bars in the Shanghai market.^{2/}

The position of the foreign banks was, however, only slightly impaired by these measures, because as long as silver was the monetary unit of the country, foreign exchange rates frequently diverged from the price of silver expressed in gold, and these variations permitted profitable manipulations. During the period from 1931 to 1935,

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1. Articles 55-57 of the Revised Business By-Laws for the Shanghai Gold Stock Exchange, Ltd.
 2. Such situation remains to be true till the present days.

at first owing to the rapid decline in the price of silver and later owing to its rapid rise, foreign banks often had difficulty in obtaining at current rates forward exchange to cover their daily transactions. As a result, they increased the margins between buying and selling rates, by lowering purchasing rates or raising selling rates or both, thereby often obtaining considerable profit. Cross-rate operations were in fact made not only for genuine requirements, but also for speculative purposes, especially during the rapid changes in international exchange rates. Shanghai was a typical speculative market on bullion and exchanges, and foreign banks developed into the most important medium through which such operations were carried out.

The role played by the foreign banks in the fixing of the foreign exchange rates between 1935 and 1937 became one of co-operation rather than leadership. With the exception of the Japanese banks, whose branches in China adopted a policy of watchful waiting until March 1937, all foreign banks followed the example of the Hongkong and Shanghai Banking Corporation^{1/} whose Shanghai manager^{1/} kept in close touch with the Chinese financial authorities, and like the other leading foreign banks, co-operated with them as and

1. Hongkong and Shanghai Banking Corporation, Annual Survey for 1935, Hongkong, 1936.

when possible."

This policy was fully accepted by the authorities of Hongkong. Following the nationalization of silver on December 5, 1935, the local note issue was secured up to a fixed amount by sterling credits. These credits included the certificates of indebtedness delivered by the colonial Government in exchange for silver, and the sterling securities deposited with the Crown Agent of the Colony. Above this limit, a 100 per cent reserve consisting of sterling notes was required for any dollar note issued.

The control of the exchange rates was entrusted to a committee consisting of the Colonial Treasurer and the general managers of the banks of issue (the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia, and China, and the Mercantile Bank of India). The new Hongkong currency was defined as a "sterling managed currency." However, the policy followed after November 1935 was directed toward bringing the local exchange rates into harmony with Shanghai. While the official rate of Shanghai on London remained unchanged from November 1935 to August 1936 at ls. 2.375d., the rate of Hongkong on London (fixed at ls. 4.4575d. in December 1935) was frequently altered and then stabilized in August 1936 at ls. 2.8783d. As a

result, the premium of the Hongkong dollar on the national yuan was lowered from 11.15 to 2.90 per cent.

It was always generally recognized that "Hongkong is economically a part of China," and had, therefore, to keep in touch with the monetary changes of the country. But in the past, during the fall and rise in the prices of silver, a premium of as high as 30 per cent was usual on Hongkong notes over the silver and Shanghai currencies. Although proposals were advanced for readjustments, little was ever done. In 1935 for the first time, the Hongkong authorities manifested definite interest in readjusting the colony's monetary system into harmony with the national currency of China, just when the foreign banks in Shanghai were losing their traditional control over the exchange market. This attitude of co-operation by the foreign banks, and particularly the British, was regarded as a most important contribution toward the policy of stabilization pursued by the National Government. This new attitude, however, was a departure from their traditional leadership and independence in the field.

E. CLEARING SYSTEM

Foreign banks maintained a strictly individualistic attitude, and co-operation or common policy beyond syndicates

for the issue of loans was almost unknown among them. Local Foreign Exchange Bankers Association were established under the presidency of the Chartered Bank of India, Australia, and China, in Shanghai in 1917 and in Tientsin in 1924, with the aim of co-ordinating their business methods and for social purposes. A plan to introduce a clearing house, similar to and possibly connected with the Clearing House of the Shanghai Bankers Association, was started by American and other foreign banks in 1932, but it failed, apparently owing to the reluctance of two large British banks. However, a clearing group was formed in Shanghai by the so-called Dund banks, a term applied to members of the Foreign Exchange Bankers Association and a few modern banks.

This group consisted of the following banks:

Chartered Bank of India, Australia, and China, Hongkong and Shanghai Banking Corporation, Mercantile Bank of India, P. and O. Banking Corporation, Bank of Chosen, Bank of Taiwan, Mitsui Bank, Mitsubishi Bank, Sumitomo Bank, Yokohama Specie Bank, American Express Company, Chase Bank, National City Bank, Banque de l'Indochine, Nederlandsch Indische Handelsbank, Nederlandsche Handel-Maatschappij, Banque de la Chine pour l'Etranger, Banque Franco-Chinoise, Central Bank of China, Bank of China, Bank of Communications, Commercial Bank of China, Kiangsu Bank, Joint Savings Society, Joint Reserve Board of the Native Banks Clearing Association, Banca Italiana per la Cina, Deutsch-Asiatische Bank.

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1. The chief purpose of the Foreign Exchange Bankers Association was to facilitate the operation of foreign exchange business. Its regulations consisted of thirteen articles. Vide The Chinese Year Book, 1937, p. 535.

Strictly speaking, there was no clearing system among these banks, and each one cleared independently through the Bank of China, which rendered the service of checking and crediting and debiting odd accounts of the balances.^{1/} Before the close of business, each bank sent a messenger to the other banks to collect the items due during the day. When all items were received, each debtor bank issued a clearing slip on the Bank of China to the account of the creditor bank for the balance due (the so-called class H.1 slips). The clearing banks were not required to keep any deposit with the Bank of China; they were allowed to draw the clearing slip because, regarding odd amounts, the difference between debits and credits would be settled by cash payments or by call loans. Before the nationalization of silver in November 1935, the debtor banks used to issue to the creditor banks a "safe custody receipt," that is, a receipt for so much silver earmarked by the debtor bank for the account of the creditor bank.

The collection of foreign bank credit on a modern bank not belonging to the Bund group could be effected in two ways. The foreign bank could keep a deposit with a

1. Before the abolition of the tael in 1933, this service was rendered jointly by the Bank of China and the Hongkong and Shanghai Banking Corporation.

Dund bank, through which a special clearing slip (the so-called class N.2 slip) was issued in favor of the foreign bank. For payments to modern banks, outside of the Dund group, foreign banks always used clearing slips of this second type, deposited with one of the modern Dund banks.

The credit items of native banks on foreign banks were sent to each foreign bank through the Joint Reserve Board of the Native Banks Clearing Association, which, itself being a member of the Dund group, cleared the balances through the Bank of China. Foreign banks sent their credit items on native banks to each one individually; native banks returned clearing slips (N.2) drawn on a modern Dund bank (usually the Joint Reserve Board); these slips were cleared through the Bank of China. In practice only the Bank of China and the Central Bank of China acted as agents for the inter-group collection. This method of settling balances was undoubtedly rather cumbersome, but it was just another case of the strength of tradition in the Orient, even among foreign communities. In Shanghai it was often said that Hongkong people did not make use of the telephone, all transactions being made through memoranda transmitted by messengers. Be that as it may, it does not seem that Shanghai people went very far in the use of new methods of banking, especially in the case of clearing.^{1/}

1. Chu, Percy, "The Various Methods of Bank Clearing in Shanghai," Finance and Commerce, August 21, 1935.

CHAPTER FIVE: INFLUENCE OVER CHINA

A. POSITION OF FOREIGN BANKS

It was only the exceptional conditions in which China found herself during the debacle of the Manchu Dynasty and the early period of the Republic which permitted the foreign banks to step into various categories of operations. If one were to search for legality, he would be obliged at a loss and only to admit many things beyond the sense of normalcy.

In Western countries, the domain of foreign banks is generally confined to foreign communities, foreign trade, foreign investments, and foreign exchange—a domain subordinate to the control of the money market by central and national institutions. In China, however, foreign banks had previously conducted operations pertaining strictly to central institutions or domestic banks. They had been able to exercise a dominating influence, internally and externally, on the money market through their custody of public funds, customs and salt revenues, and railway receipts, the issue of bank notes, and the monopoly over foreign financial transactions. While foreign banks might, to some extent, have served genuine economic

needs, they had, however, prospered merely on the misfortunes, rather than the fortunes, of the country.

At the conclusion of the Opium War in 1842, foreign institutions had originally been restricted to the Treaty ports and had been prohibited from maintaining branches in the interior of the country under treaty commitments. These restrictions and prohibitions were never strictly observed. Every subsequent trouble between China and foreign powers furnished the latter a fresh opportunity to bargain for new favors. Unfortunately, such troubles were too numerous.

Moreover, laws and regulations of the Chinese authorities were not applicable in many cases, such as British, American, Japanese, French, Italian, Belgian, Dutch, Portuguese, German, and Russian banks. These banks were working in a system of extraterritoriality, which exempted them from control or interference from Chinese authorities, while their own national laws and banking regulations were not rigidly applied. In consequence, they enjoyed a most usual independence.

Although at a later stage several powers, such as Germany and the U. S. S. R., forfeited their extraterritorial rights,^{1/} the enforcement of Chinese laws and regulations with regard to the few banks belonging to them and

1. Germany after the Versailles Treaty, in 1920 and the U. S. S. R. after her Revolution, in 1921.

some Sino-foreign banks were entrusted to the Chinese Special District Courts operating in the foreign controlled areas by agreement between China and the concerned powers. In these cases, certain privileges were usually granted to the foreign institutions or they could easily get around Chinese control due to actual circumstances.^{1/}

B. ECONOMIC AND POLITICAL CONSEQUENCES

The successful expansion of foreign banks in China was chiefly due, aside from the afore-mentioned political factors, to their being the only international institutions in the field. This situation prevailed before the appearance of Chinese modern banks in international market in 1923. Even afterwards, the influence of some older foreign banks has still been potent, though declining.

Evidently, the outstanding status of foreign banks may be ascribed to two major premises; namely, capital strength and multiple activities. For example, the total paid-up capital and reserve funds of the banks of a few nationalities at the end of 1933 are: British banks, over

1. Especially because the U.S.S.R. offered to forfeit her extraterritorial rights, she asked for more favorable treatment from the weakening Peking Government.

28,000,000; Japanese banks, over ¥316,000,000; and American banks, over \$139,000,000. The amounts of their total deposits are: British banks, over £140,000,000; Japanese banks, over ¥3,300,000,000; and American banks, over \$1,100,000,000. Although the statements issued by these banks include the figures of their head offices and branch offices in other parts of the world, the fact remains that they are far better placed than the Chinese banks financially.

As to their activities, the Hongkong and Shanghai Banking Corporation, for instance, with its head office at Hongkong, is represented in thirteen ports in China; namely, Amoy, Canton, Chefoo, Dairen, Foochow, Hankow, Harbin, Kowloon, Mukden, Peiping, Shanghai, Tientsin, and Tsingtao; and a large portion of its business is located in China. The paid-up capital of this bank is Hk.20,000,000; but its reserve funds amount to more than five times its capital, and its deposits, to over Hk.390,000,000. Banks of other countries undoubtedly are under similar circumstances. All these conditions are indicative of the strong standing of the foreign banks as well as the enormous profits that they have made.

From their position as international institutions, foreign banks indeed have derived many advantages which have contributed their phenomenal growth. Looking back to their

past records, we can analyze as follows:

1. Control of Foreign Exchange—The foreign banks in China were believed to have originally been established for the purpose of affording facilities to their own nationals engaged in trade with the Chinese. As the early foreign trade was almost exclusively handled by foreign import and export firms located at Treaty ports,^{1/} the foreign banks, in turn, assumed a practically monopolistic control of China's foreign exchange. Even at later stages, Chinese banks were not able to compete with foreign banks in the matter of foreign exchange, because the foreign banks were generally equipped with better facilities to perform this function.

The foreign money market may be defined as the market formed by those institutions and organizations handling monetary and financial business in China under foreign control. Thus, foreign banks in China were able to manipulate the rate of exchange at will, in order to profit at the expense of the Chinese. A large quantity of fictitious exchange was transacted with any normal operation of the banks, as inpayments and outpayments were made in the current standard, while banking accounts were kept in a nominal monetary standard, such as the tael, or in foreign currencies.

1. For instance, foreign trade expanded from CN\$205,500 in 1871 to CN\$3 million in 1929.

So large was the turnover in exchange transactions that in some cases it formed the only important item of profit.^{1/}

The sources of demand for foreign exchange necessarily included (1) financing of foreign trade, (2) transfer of foreign remittances, (3) handling of customs and other government funds under loan contracts, and (4) miscellaneous arbitraging processes. To meet the need for expanding business, the foreign banks in Shanghai and Tientsin even formed a Foreign Exchange Bankers Association in each city.

Furthermore, the international position gave foreign banks a particular advantage in dealing with specie. Some large cities, like Shanghai and Tientsin, rapidly became the outstanding markets for speculative operations in bullion as well as exchanges.

2. Custody of Chinese Customs and Salt Revenues---

During the last years of the Manchu régime, the Chinese customs and salt revenues were placed under the custody of the Superintendent of Customs at Shanghai for the specific purpose of reimbursing foreign debts of the Chinese Imperial Government.^{2/} Since the time of Revolution in 1911,

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1. For instance, the rate of exchange as declared by the Hongkong and Shanghai Banking Corporation was invariably higher than usual at times when payments were made by the Chinese Government to settle its foreign loans. Vide The Chinese Year Book, 1935, pp. 1448-9.
 2. Vinacke, H. M., op. cit., pp. 65, 68.

the revenues in question were, at the request of the foreign interests concerned, deposits with three foreign banks, namely, the Hongkong and Shanghai Banking Corporation, the Deutsche Asiatische Bank, and the Russo-Asiatic Bank, for safe-keeping. With these funds, the foreign banks were able to develop their own business. This practice was only discontinued in 1929, when China regained her tariff autonomy.^{1/}

3. Loans to Chinese Government—Following the Opium War in 1842, China witnessed years crowded with troubles within and without. There were, for instance, the war with Great Britain and France (1858), the border troubles at Annam (1862) and Ili (1864), the war with Japan (1895), and the Boxer Uprising (1900). The Chinese Imperial Government was compelled not only to incur large expenses but also to pay heavy indemnities. This led to making loans from foreign sources, and the foreign banks in China as agencies for handling such loans, which again brought considerable profits to them.^{2/}

Loans contracted at later stages also involved other purposes, notably the construction of railways and the culti-

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1. Chinese tariff autonomy was resulted from the Washington Conference.
 2. Government foreign obligations and investments in China required current annual outpayments amounting to CN\$245 million in 1902-13 and CN\$210 million in 1914-33.

vation of mines. Although some loans were at times in default, the benefits reaped by the creditor banks were usually enormous.

4. Deposits by Chinese Mandarins, Militarists, Politicians, etc.—In addition to the advantages mentioned above, the foreign banks in China have been the custodians of huge sums deposited by Chinese mandarins, militarists, politicians, and other rich people, who considered the foreign banks, protected by extraterritorial treaties, to be the sanctuary of their money and treasures. Civil wars, political disturbances, as well as social unrest usually aggravated the nation's financial plight owing to the flight of capital. While the exact figures of such deposits are not available, it is obvious that they amount to staggering totals. Most foreign banks even turned this easy flow of funds into speculative channels, and fished for extra profits from the Chinese community.

5. Circulation of Foreign Bank Notes—Finally, many foreign banks have also entered the field of note issue. Of these the Hongkong and Shanghai Banking Corporation, the Banque de l'Indochine, and the Bank of Chosen are the most notable. As an instance of their influence it may be said that notes of the first named bank in Kwantung, those of the second named in Yunnan, and those of the last named in

Manchuria, had in each case at one time or another exceeded the total volume of Chinese bank notes in circulation.

It is only during recent years that outside these provinces there has been a smaller circulation of notes of foreign banks in proportion as the note-issuing position of Chinese banks has been consolidated and improved.^{1/} One must recall that foreign banks are not registered under the Chinese laws with the Chinese Government. Therefore, the Chinese authorities are not in a position to investigate the exact ratio of the notes issued to the reserve funds of each foreign bank.

From what have been stated, it may be summarized that the foreign banks, with mighty financial power and privileged position, exercise an important influence over the Chinese conditions, both economic and political. All the adverse consequences are undoubtedly rooted from the unequal treaties which the foreign powers imposed upon the Chinese Government. As long as the rights of extraterritoriality continued to occupy a prominent position in the business world, foreign banks necessarily played a decisive part in the foreign exchange market, and their co-operation was compulsorily needed by the financial and monetary authorities of China.

1. The Chinese Year Book, 1956, p. 791

C. RELATION WITH CHINA'S MONETARY AND BANKING REFORMS

Dr. Sun Yat-sen, the founder of the Chinese Republic, called the attention of new China to the necessity of developing a national modern banking system. Foreign banks were decried as "another example of foreign economic invasion." He called particular attention to three activities of foreign banks: (1) the issuance of bank notes, (2) the operation on exchanges, and (3) the accumulation of deposits. He observed:

"The credit of the Chinese bank notes and law of the Chinese silver is inferior to that of the foreign bank notes....When we buy a draft to be drawn on another city on a foreign bank, besides the commission of $\frac{1}{2}$ per cent charged, the bank usually gets a profit of 2 or 3 per cent by discounting the money at both places. (In the case of deposits) foreign banks make a profit of tens of millions by using the Chinese capital through only a little business routine....Two billions of deposits with foreign banks bear a very low rate of interest, at most 4 or 5 per cent. In turn the banks lend the money to the Chinese merchants at a much higher rate of interest, from a minimum rate of 7 to 8 per cent to over 10 per cent....Friends, what a loss to us!....Foreign banks squeeze out of this country at least CN\$10 million every year for the three items mentioned....We have to suffer a great loss because we have been poisoned by the foreigner's economic intrigues." 1/

When, in 1923, Dr. Sun and his revolutionary party succeeded in attaining power in south China, they were not slow to recognize that their existence and progress were both intimately connected with adequate financial security. Their

1. Sun Yat-sen, "The Political and Economic Forces," in Hsu, L. S., Sun Yat-sen: His Political and Social Ideas, University of Southern California Press, Los Angeles, 1930, pp. 180-92.

first endeavors were directed toward establishing a Government bank on modern lines. On August 15, 1924 the first Central Bank of China was inaugurated. The charter provided for a Government-owned institution, "to develop industry, to stabilize commerce, to render financial help to the public, and to encourage international trade" (Art. 1). Besides acting as fiscal agent for the Government (Arts. 7-8), the bank was allowed to transact general banking and exchange business and to deal in Government and Government-secured debentures (Art. 5). Loans on investments in real estate or real estate companies were specifically prohibited, as well as the purchase or acceptance of merchandise as security for loans (Art. 9).^{1/}

After the establishment of the National Government in Nanking in 1927, the trend in China appeared to be decidedly favorable to the further development of the modern type of banking and monetary systems. The National Economic and the National Financial Conferences were called in June-July 1928 to deal with the organization of a Chinese modern banking system and the installation of a currency reform with a view to furthering the unification and independence of the country. Other problems discussed include the recovery of tariff auto-

1. This first Central Bank of China is not to be confused with the Central Bank of China which was organized in 1928. Vide Kuan, E., "The Central Bank of Canton," Chinese Economic Journal, 1929, pp. 1017-36.

army, revival of foreign commerce, unification of financial administration, reform of taxation, readjustment of internal loans and external debts, abolition of the tael, etc. Many important measures were adopted to be carried out in the following years from 1929 to 1937. The whole program marked the determination of the National Government to support the policy of "Unification by Reconstruction."^{1/}

In the years immediately preceding the Sino-Japanese conflict, foreign banks were adapting themselves to new political situation created by the National Government. Between 1935 and 1937, foreign banks were obliged to withdraw partially from predominant position to their legitimate positions. In addition to the loss of some of their privileges, they met with stiffer competition from the modern banks. The time of easy gain, easy speculation, and easy profits came to an end with the monetary reform of 1935.^{2/}

Despite all this, their importance continued to be great, and their privileges survived the bankruptcies of some reckless activities. Unless the rights of extraterritoriality ceased to exist, there would be no hope to effect a thorough improve-

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1. Chiang Kai-shek, "The Economic Reconstruction of China," North China Daily News, October 10, 1936.
 2. At this juncture, the foreign loan policy had come to a standstill and the reckless activities of some banks had raised some suspicion as to their conduct.

ment. Unless the Chinese banks were able to consolidate themselves, it would be practically impossible for them to withstand the pressure of foreign banks.

The position of the foreign banks in 1937 was one of "necessary co-operation" with, rather than "control" of, the Chinese official financial policy. This situation evidently represented a position of transition toward an ultimate logical "subordinate dependence" to the national institutions. Germany and the U. S. S. R. consecutively lost their extraterritorial rights in 1920 and 1921 and concluded new agreements with the Chinese Government to govern their economic relations with China. During the recent World War The United States and the United Kingdom concluded new treaties for the purpose of abolishing their extraterritorial rights in China and their future economic relations with China are to be stipulated by new commercial treaties.^{1/} These precedents were followed by many other nations. All this certainly contributed ^{to} the final goal of China's settled policy.

Indeed, many improvements and readjustments have been made concerning both banking and monetary matters in China; but they were not achieved without confronting hazardous hindrances. During the years after the price-slackening period of 1932, facilities for foreign trade were enlarged

1. Sino-American and Sino-British Treaties for abolishing extraterritoriality were both signed in January 1943; their new commercial treaties with the of modifying the old relations are now under consultation.

by the expansion of Chinese modern banks in the foreign field. These banks took over some of the business previously transacted through foreign institutions. Moreover, the National Government itself entered into the business of foreign trade, either on barter agreements, as with German firms, or as a direct buyer and seller, by purchasing railway and other materials through the remitted funds of the Boxer indemnities, and by selling sesamum oil, groundnuts, and other products through special agencies. Financing of trade was made through the Bank of China, which handled all official foreign exchange transactions. These actions were motivated by national needs and by increasing popular interest in international trade. During 1936 and 1937 China began to have a period of great expansion in foreign trade under her own management.

The introduction of a new national currency in all parts of China and the establishment of foreign branches and foreign correspondents by several Governments also resulted in a diversion of a considerable portion of the foreign remittances after 1935. The revision, consolidation, and liquidation of the domestic and foreign debts were effected from 1931 to 1935.

The monetary reform of November 1937 provided for

nationalisation of silver and for a managed currency. After much suspicions and bickerings,^{1/} foreign banks eventually liquidated most of their silver and turned the rest to the Chinese Currency Reserve Board. The Government banks, in turn, sold the silver in the open markets of Bombay and London, but most of it was transferred by special arrangements to the Treasury of the United States. Simultaneously a considerable amount of foreign trade was taken over by the National Government directly, and the paper arising from such transactions were transferred entirely to the Bank of China. Thus, modern banks began to compete successfully with foreign banks in the financing of foreign trade, the transfer of foreign remittances, the handling of customs and other government funds, and other banking matters. According to foreign unofficial estimates, about 60 per cent of the total exchange operations of the Shanghai market had been shifted into the hands of modern banks in 1937. It may be assumed that the importance of the foreign banks in determining the foreign exchange rates had decidedly declined. Such a condition will continue to be beneficial to China if she can persistently win the co-operation and understanding of the foreign banks.

1. The Japanese at first adopted a position of watchful waiting; a certain pressure on foreign banks was brought by the British Government which proved to be very co-operative. Wide Finance and Commerce, March 10, 1937; Friedman, I. S., British Relations with China: 1931-1939, New York, 1940, pp. 37-70.

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ERRATA ET EMENDA (Mainly typographic)

Page	Line	Erratum	Emendum
4	6	financing the	financing of the
5	16	anf	and
9	24	op. cit.	<u>op. cit.</u>
11	12	for eign	foreign
12	8	Banking and	Banking Corporation and
"	"	City of	City Bank of
"	9	China'a	China's
13	9	the Chosen	the Bank of Chosen
27	18	The was	He was
"	20	raison d'etre	raison d'être
31	4	foreign still	foreign banks still
37	4	According their	According to their
39	23	China was	China
41	4	4 Per Cent	4 Per Cent and
50	4	were by	were made by
60	11	Sha nghai	Shanghai
61	7	or extended or extended	or extended
63	6	against	against
73	2	Bankers	Bankers'
"	8	"	"
"	12	"	"
"	27	"	"
"	30	The Chinese Year Book	<u>The Chinese Year Book</u>

Page	Line	Erratum	Emendum
77	9	the latter a	the latter with a
"	18	usual	unusual
81	9	Bankers	Bankers'
82	18	in China as	in China acted as
83	3	usually	usually
84	11	of	held by
86	21	include	have included
88	21	confronting hazar- dous	confronting with hazardous
89	12	by increasing	by the increasing
90	1	manged	managed