

THE FOREIGN BANKS IN CHINA, PART I - EARLY IMPERIAL ISSUES (1850-1900)

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The Opening of China to the Outside World

It was not until Marco Polo ventured into China during his Asian travels (1271-1295 AD) that the existence of China, then part of the Mongol Empire under the great conqueror Kublai Khan, became known to the Western world. Polo discovered many ways in which the Chinese were far advanced as compared to Europeans. He was incredulous to discover that the Great Khan possessed the secret of producing money out of paper. Upon his return he wrote a book chronicling his travels entitled *The Book of Marco Polo, Citizen of Venice, Wherein is Recounted the Wonders of the World*. In it he reported that “. . . once coined in large quantities, this paper currency is circulated in every part of the Grand Khan's dominions; no person, at peril of his life, dares to refuse to accept it in payment. All his subjects receive it without hesitation, because, wherever their business may call them, they can dispose of it again in the purchase of merchandise . . . such as pearls, jewels, gold or silver. With it, in short, every article may be procured.” We now know, with a large degree of certainty, that it was the thirteenth century Yuan dynasty kwan notes of which he spoke.

Cathay, as China was then called, was the dominant power in Asia. After conquering surrounding lands, Kublai Khan subjugated them to the status of vassal states, obligated to pay annual tribute to the Tartar throne. Another 260 years were to pass before the first Westerners were to settle there. Instead of traveling overland, these settlers came by sea. They were Portuguese seamen and missionaries bent upon exploration and trade. By 1557 they had established a trading post at Macao. These men became extremely wealthy. Their ships carried silks, spices, porcelain and tea to European markets turning handsome profits on each voyage. Other Europeans, seeing the golden opportunities offered by Far Eastern trade, soon joined in. They did not come as tribute bearers, however, but as equals. Nor did they admit to Chinese cultural superiority nor follow established rules (such a kow-towing to Chinese officials); therefore they were looked upon by the Chinese as “barbarians”.

The Chinese, considering themselves superior in all things, looked down upon these barbarians seeking to trade with China. After all, was China not the greatest nation on earth? The Manchu emperor K'ang Hsi (1661-1722) truly believed that China ruled the world, being totally ignorant of geography beyond China's boundaries. He described China as being “at the center of the universe” - hence, the “Middle Kingdom” concept. Manchu territorial claims were so extravagant that it was boasted all territory “Under the Heavens” and “Regions Within the Four Seas” were included within their

domains. Such references could still be found on the “Great Ch'ing Precious Notes” of the 1850s. These copper cash notes bear the four characters “T'ien Hsia T'ung Hsing” in their right border design, which translated means “to circulate under the heavens”.

The Chinese emperors generally held that the views and ideas of barbarians were of no significance. Indeed, when George III of Great Britain sent a letter to the emperor in 1795 suggesting regular trade between the two countries, Ch'ien-Lung replied . . . “there is nothing that the Middle Kingdom does not already possess . . . so therefore, how could trade be of any consequence?”

The Ming empire was perhaps the zenith of Chinese culture. A great stimulation of activity in the fields of history, philosophy, art, poetry and literature took place under the Ming emperors. The Ming were overthrown in 1644 by invading nomad Manchu tribesmen from the north. These tribesmen greatly admired and recognized Chinese superiority in the arts and in education, and chose to retain these features as part of their culture. This was the situation the early traders encountered. They found many things of beauty and utility to be exported to European markets. Chinese silks and porcelains were in great demand. The supply of tea could not keep up with English demand, so prices rose dramatically.

As time went by, white seafarers became more and more vocal in their demands that they be permitted to trade freely with China along with maintaining diplomatic representation there. These mercantile interests were thought, by Europeans, to be a matter of right. Soon after, the voices of Protestant evangelism joined forces with the merchants in demanding an “open door” throughout China.

The Opium Wars and Increasing Foreign Intervention

The Middle Kingdom, regarding itself as self-sufficient in all respects, had no need for imports. There were no commercial treaties with other nations. No diplomats represented European governments at the imperial court. Many restrictions were placed upon the “barbarians”, the chief of which was confinement to the single port of Canton. Here Portuguese, English, Dutch, British, American and French merchants plied their trade. Westerners were not allowed free access to China proper. All business was confined to small “factories”, little more than a cluster of waterfront warehouses, where Chinese merchants presented their wares.

The earliest American ships to enter the China trade were the privateers of Revolutionary War fame. These Yankee traders, ever mindful that time was money, had speed uppermost on their minds. The privateers were superseded in the 1830s by a new class of ship – the China clippers. These were the fastest commercial craft that ever sailed. They were to rule the waves for the next forty years. Some of these ships were



The Chinese viewed foreigners who sought to trade with China as “barbarians”. Portuguese, Dutch, British, American and French merchants seeking trade were confined to the single port of Canton. All business was conducted in small “factories”, such as this, where the Chinese presented their wares.

capable of making over eighteen knots and covering well over four hundred miles in a single day. The Great Tea Race took place in 1866 when eleven ships set sail from Foochow at the same time bound for London. The race ended ninety-nine days later after covering sixteen thousand miles. The winner was *Aerial*, arriving in the Downs just ten minutes ahead of her rival, *Taiping*.

The British East India Company held the English trade monopoly with China and India. It was this trade that introduced tea to England and their American colonists. Other exports included porcelain, brocades, sugar, ginger, silks and furs. While Chinese goods were in great demand and sold well in Europe and America, the problem was that virtually no demand existed for Western goods in China. This created a serious trade imbalance. As a consequence, European merchants found themselves shipping large quantities of silver bullion to China to pay for these articles. Clearly, something had to be done! It was the British who finally found something the Chinese would buy. Opium was one of the principal crops grown in British controlled India in the eighteenth century. It was the sale of opium that finally gave Europe a trade advantage with China.

Opium trafficking may be said to have indirectly brought about the downfall of

the Chinese Empire. The process took one hundred and fifty years. Originating in India, the narcotic was first introduced to China in the early 1700s. Its use was at first confined to medicinal purposes. However, the drug soon became a pastime of the wealthy and leisure classes. When this became apparent, the emperor prohibited its continued use. This of course did not stop the trade; it merely drove it underground. Trade in opium was perpetually profitable. At first there were few addicts. In 1750 a mere four hundred chests of opium were imported. In 1796 China imported fifteen hundred chests. Each chest contained one hundred thirty-three pounds of the narcotic.

Internal rebellion at this time so weakened Ch'ing rule that Europeans began to be more assertive in their demands upon China. In 1820 five thousand chests entered China; by 1830 that number had doubled and by 1840 the volume had increased to forty thousand chests. The opium smoking habit grew until it tilted the balance of trade against China. China's silver started a reverse flow – out of China – in order to pay for the drug. For the first time the balance of trade was in favor of the Europeans.

Once the smoking habit had spread, the imperial Chinese government became alarmed at the growing addiction of its people and by the outflow of silver to pay for the drug. The social and moral issues resulting from the opium traffic were recognized from the start. As early as 1839 emperor Tao-Kuang wrote a letter to Queen Victoria, then twenty years old, begging her to put a halt to the illegal trade. History records no response, or even if she indeed ever received the communication. It was also evident that the extraordinary profits being made in the opium trade were beginning to infest an increasingly corrupt and decadent Ch'ing bureaucracy. Tao-Kuang ordered a council to consider what could be done. One group supported legalizing the sale of opium by controlling its use, thereby permitting the emperor to profit from the trade. They doubted that the importation and cultivation of opium could be effectively prohibited. The moralists, on the other hand, believed that if opium smoking were legalized everyone would soon be carrying pipes; therefore, there could be no compromise with evil. After hearing these arguments, emperor Tao-Kuang came down on the side of prohibition. One must reflect that one hundred and eighty years later all this sounds alarmingly familiar, and causes one to reflect that we never really do learn from history's past lessons.

The government then tried to stamp out the opium traffic by forbidding imports. The British argued that they were merely satisfying the market, and besides, Chinese officials were eagerly cooperating in the lucrative trade. British merchants saw opium as the ideal trade commodity, imperishable and extremely profitable. Upon arrival from India, opium chests were held in storage ships offshore until they could later be transported upriver to Canton for distribution throughout China. It was these opium stores that Tao-Kuang ordered destroyed. Negotiations with the British to end the opium traffic having failed, the Chinese seized twenty thousand chests of newly arrived

opium, mixed it with quicklime, and dumped it at sea. The outraged British, determined to punish the Chinese for their high-handed acts, sent troops and warships to blockade Canton thus provoking the First Opium War. In the opening action Chinese navy war junks were quickly dispatched after firing upon the British warships. The First Opium War lasted another three years before the British finally prevailed. The Manchu government was forced to sue for peace – the price of which proved to be very dear indeed. The resultant Treaty of Nanking, signed in 1842, was a gross act of plunder. The British demanded the opening of the ports of Canton, Amoy, Foochow, Ningpo and Shanghai to free trade and foreign residence; the surrender of the island of Hong Kong “in perpetuity”, and an annual indemnity of twenty-one million ounces of silver to be paid for the opium destroyed and the cost of the campaign. The war, from the British point of view, was really a daring speculation intended to pay for itself, if successful. The Treaty of Nanking came to be known, appropriately, as the first of the “unequal treaties”. Soon after, the United States and France, seeing how weak and helpless China really was, concluded their own treaties with the Middle Kingdom. In 1844 these two countries were granted extraterritorial jurisdiction over their own citizens, favorable tariffs on goods imported into China and the right for missionaries to preach and reside in the interior.



The British fleet engages Chinese war junks defending Canton during opening hostilities of the First Opium War

The 1850s saw rapid growth of imperialism by the western powers. The primary goals were expansion of overseas markets and the opening of additional ports in China. To this end, France and the United States joined Britain in demanding that the Ch'ing government re-negotiate the Treaty of Nanking in order to open more ports, legalize the opium trade, regulate the coolie trade (cheap Chinese labor) and grant the right of residence for a British ambassador in Peking. The Ch'ing court rejected all these demands. This prompted the Second Opium War, which may be viewed as a continuation of the first.

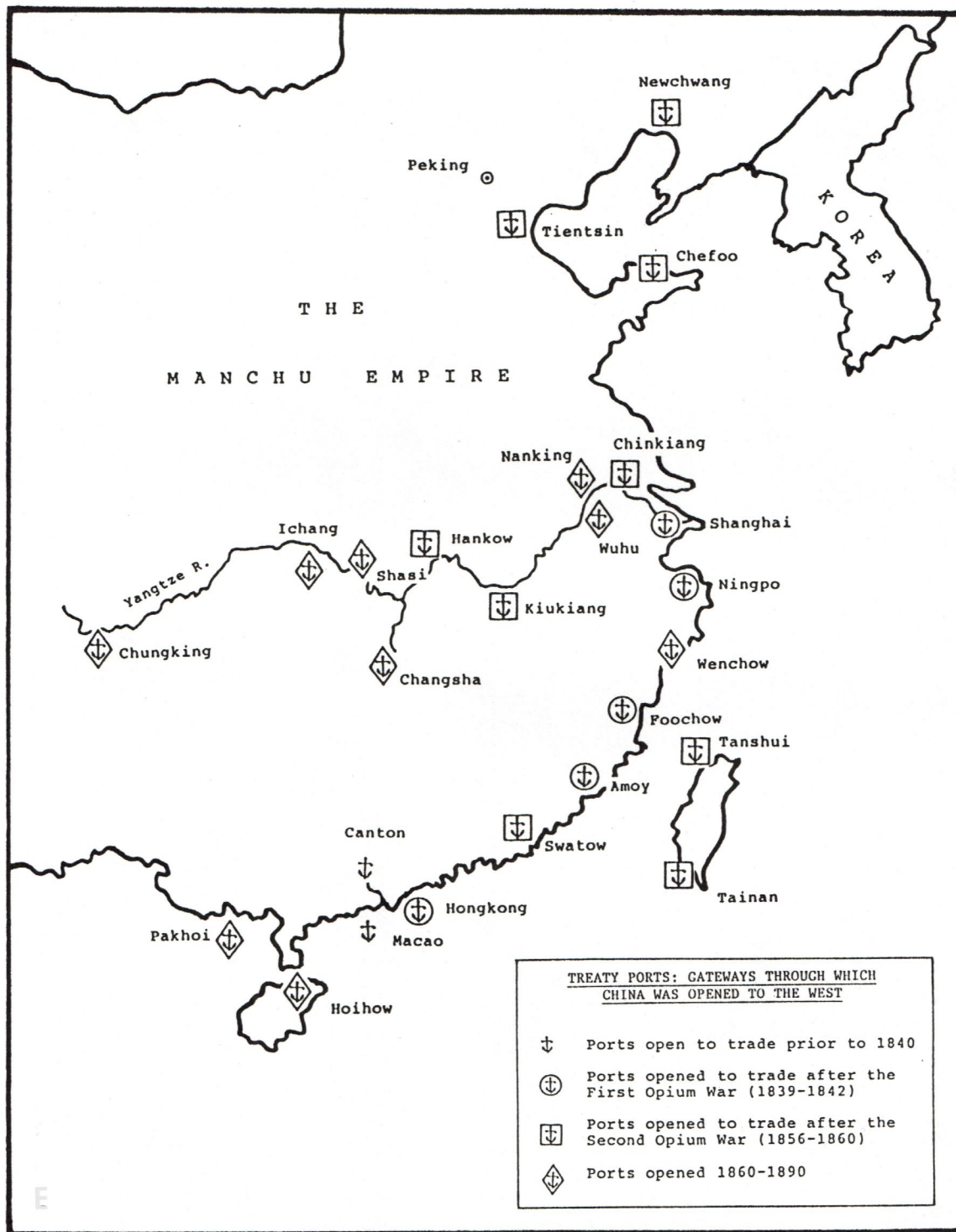
It started innocently enough when on October 8, 1856 Chinese officials boarded the *Arrow*, a Chinese-owned ship flying the British flag, which was suspected of smuggling. The Chinese crew was arrested, whereupon the British demanded their release stating the *Arrow* was protected under the Treaty of Nanking and that the Chinese had insulted the British flag. The Ch'ing government occupied at the time with the Taiping Rebellion - a genocidal internal affair lasting over fifteen years and claiming twenty-five million lives - was powerless to resist.

In response to the *Arrow* incident, the British attacked the Kwangtung forts along the Pearl River. The British Parliament then sought the help of France, Russia and the United States to form an alliance against China. The British and French joined military forces to punish China; Russia and the United States did not. The French and British then cruised north to subdue and capture the Chinese forts at Taku, the gateway to Peking. The Ch'ing forces continued to resist, whereupon the Anglo-French army marched upon Tientsin and Peking, capturing both places. Emperor Hsien Feng then fled the capital taking refuge temporarily in the Summer Palace outside Peking, then to Manchuria, leaving his brother to sue for peace. The Treaty of Tientsin was ratified on 18 October 1860, bringing an end to the Second Opium War.

The new treaty gave Britain, France, Russia and the United States the right to establish diplomatic embassies in Peking (a formerly closed city), the opening of ten additional Chinese ports to foreign trade, free transit on the Yangtse River and the interior, and the payment of indemnities to Britain and France totaling twenty million taels of silver. The defeat of the Manchu army by such a small force together with the flight (and subsequent death of emperor Hsien Feng) and the burning and sacking of the Summer Palace was a shocking blow to China. Having been thoroughly defeated and humiliated by the West, China was to take years to recover.

Foreign Banking in China

From the mid-nineteenth century up to the beginning of World War II, no fewer than twelve foreign countries maintained banks in China. Foreign banks enjoyed extraterritoriality rights in China, which included the freedom to issue their own bank



The Treaty Ports – Gateways through which China was opened to the West.

notes. These banks established branches throughout China in order to facilitate trade with the home country. These institutions were not permitted to operate wherever they wished to set up an office. By treaty, their operations were limited to the “treaty ports” set aside under the terms of the indemnity laws enforced upon China after losing two

opium wars. These banks had no right to do business outside the treaty port jurisdictions. Notwithstanding this restriction, the operations of the foreign banks, with few exceptions, were so successful that the Chinese preferred them over their own “native” banks. Because their operations were so soundly managed, the notes of the foreign banks were in great demand and consequently circulated throughout all of China. For a list of the British banks that issued notes in China see Table 1.

Operating entirely within foreign-held enclaves, these foreign banks were not subject to Chinese law, rather operating under the banking laws of the mother country. These banks could finance projects within the treaty ports but could not participate in those beyond without imperial sanction. In this way foreign banks did not compete with the interests of Chinese commercial banks. As noted, the principal function of the foreign bank was to promote and finance foreign trade. The life blood of this business was the handling of bills of exchange. Enjoying a practical monopoly in the foreign exchange business, the foreign banks were in a position to dominate exchange rates between China and the outside world. This was a very lucrative field. When one recalls that China was made up of many different types of currency in its different geographical areas – the opportunity for profit was very great. Typically, a foreign bank would return an annual profit of from fifteen to twenty percent to its shareholders. Additional sources of income for foreign banks were derived from floating loans for the cash-starved Chinese government and by transmitting remittances to and from China.

Some foreign banks maintained branches in multiple treaty ports. This anomaly permitted a bank in one locality to discount its own notes from another branch. The currency situation in China made this possible for the simple reason that hard money was always viewed as a commodity by the Chinese which only coincidentally served as a medium of exchange. Thus, a bank's buying and selling rates on money in circulation differed, returning a net profit to the bank on each and every exchange transaction.

Foreign funds held on deposit were always large and extremely secure, as the bulk of them represented Chinese customs and salt revenues held as collateral against foreign loans. For this reason, the bank notes issued by foreign banks were in great demand, circulating freely throughout China in contrast to the treaty port limitations placed upon the banks' operations.

The Early British Banks in China

At one time or another no less than fifteen British owned banks did business in China. Of these, seven got their start in India. The British, quite naturally, dominated the field of foreign banking. Soon after the first of the “unequal treaties” was signed, the leading merchant houses of India, setting themselves up as private bankers, sought new sources of revenue in China. The first of these, the Oriental Bank, established a branch

Table 1. - Foreign Note Issuing Banks in Imperial China (1850-1900)

Issuing Authority and (Branches)	Parent Country	Dates	Denominations
Agra and United Services Bank (Hong Kong)	Great Britain	1862	100, 200, 300, 500 dollars
Asiatic Banking Corporation (Shanghai)	Great Britain	18xx	10, 25 taels
Chartered Mercantile Bank of India, London and China (Hankow, Hong Kong, Shanghai)	Great Britain	18xx 1881	5, 10, 25, 50, 100, <i>1000</i> taels 1, 5, 10, 50 Mexican dollars
Chartered Bank of India, Australia and China (Hankow, Hong Kong, Shanghai, Tientsin)	Great Britain	18xx 1881 1898-1911 19xx 19xx 1863-1930	5, 10, 25, 50, 100 taels 1, 5, 10, 50 Mexican dollars 1, 5, 10, 50, 100 Mex. dollars 100, 500 taels 5, 10 Hongping taels 1, 5, <i>10</i> , 25, 50, 100, 500 dols.
Comptoir d'Escompte de Paris (Shanghai)	France	1866	5 taels
Bank of Hindustan, China and Japan (Hong Kong)	Great Britain	1863	unknown
Hong Kong and Shanghai Banking Corporation (Amoy, Chefoo, Foochow, Hankow, Hong Kong, Peking, Shanghai, Tientsin)	Great Britain	18xx 1894-1897 1874-1899 1884-1923	1, 5, 10 taels 1, 25, 50, 100 Mexican dols. <i>1</i> , 5, 10, 50, 100 taels <i>1</i> , 5, 10, 25, 50, 100 dollars
National Bank of China (Amoy, Hong Kong)	Great Britain	1892-1911	5, 10, 50, 100, 500 dollars
Oriental Banking Corporation (Hong Kong, Shanghai, Victoria)	Great Britain	1865 1866-1883	5, 10, 50, 100, 500 taels 5, 25, 50, 100 dollars
Russo-Chinese Bank (Hankow, Newchwang, Peking, Shanghai, Tientsin)	Russia	1898 1898-1907 1903-1914 1901-1909	100, 300 cash 1, 3, 5, 10, 50, 100, 500 taels 1, 5, 10, 50 dollars 1, 5, 10, 50, <i>100</i> Mexican dols.

Note: Italicized denominations are illustrated in this article.



With headquarters in London, the Chartered Mercantile Bank of India, London and China opened its doors in Shanghai in October 1854, where they issued both silver dollar and tael notes. This remainder was the largest value issued.

bank in Hong Kong in 1845 and some time after commenced issuing bank notes denominated in Spanish milled dollars. This issue was based upon the Carlos silver dollar, which was then the preferred medium of exchange among Chinese merchants. The Oriental Bank failed in 1884.

Between 1845 and 1866 other Indian based banks established offices in Canton, Hong Kong and Shanghai. These included the Agra and United Services Bank (established 1853, failed 1866), the Asiatic Banking Corporation, the Chartered Mercantile Bank of India, London and China (established 1853), the Bank of Hindustan, China and Japan; the Chartered Bank of India, Australia and China (1857), and the French bank Comptoir d'Escompe de Paris. At the time these banks functioned as the main financiers of trade between the Far East and Europe, America and Australia. By 1866 these banks had all opened offices in Shanghai, Hong Kong and Hankow. Shanghai's geographical location made it well situated to serve as an international port, as ships from overseas could transit through Shanghai, connecting to the Yangtze River and the Grand Canal, and thus to all of China. The bank's Shanghai offices were located on the Bund in impressive buildings which stand to this day. Initially, the need for their services was restricted to opium transfers from India to China and tea exports from China to world markets. As the tea export period lasted for only a few of the summer

months and opium imports became increasingly restricted by the Chinese government, many of the early Indian banks failed or were reorganized. For example, the Chartered Mercantile Bank of India, London and China - after having issued Hong Kong bank notes from 1859 to 1892 - was then reorganized as the Mercantile Bank of India



The Bund, the main thoroughfare along the waterfront in Shanghai's International Settlement. The principal foreign banks doing business in the city were located here.



Shanghai headquarters building of the Hong Kong and Shanghai Banking Corporation. The address was No. 12, the Bund.



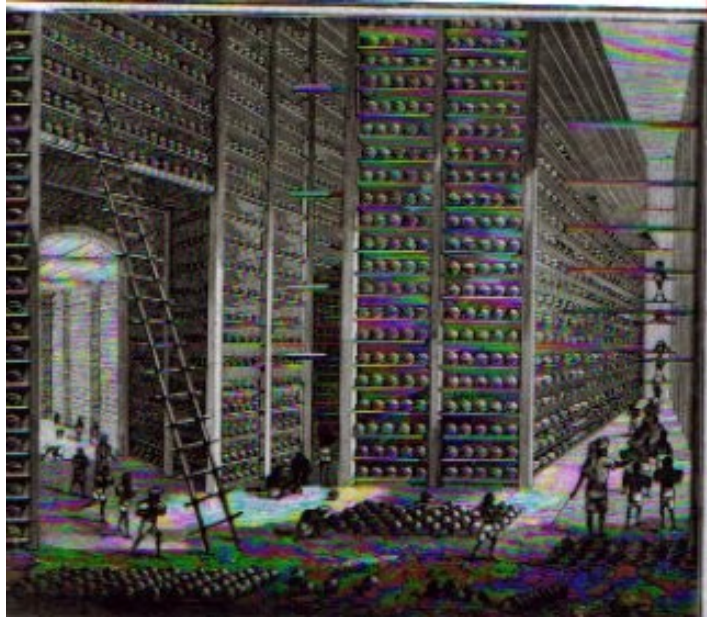
The Oriental Bank was the first foreign bank to open a branch in China. It was also located on the Bund.

which then issued bank notes in its own right. The only Indian based bank to have survived throughout China's dwindling imperial years to the end of the Republic of China was the Chartered Bank of India, Australia and China of which we will hear more later.

The Asiatic Banking Corporation failed, oddly enough, by having tied its fate too closely to the Confederate States of America! This strange situation came about with the outbreak of the American Civil War. At the time British textile mills were entirely dependent upon cotton shipped from the Confederate States. The Confederates refused to supply the British with cotton unless Britain granted them recognition as a nation. This Britain refused to do, turning instead to India for the desperately needed cotton. There they tried to create a cotton raising culture overnight. Prices shot through the roof and supply could not keep up with demand. Speculation in cotton futures ran rife, the Asiatic Bank being the principal provider of capital. Of course, when the war ended England went back to buying cheap southern cotton ending the Indian experiment. Shareholders and the Asiatic Banking Corporation were left holding the bag. This bank also had offices in Singapore and at Colombo and Kandy in Ceylon. All closed in 1866.



The Asiatic Banking Corporation had previously operated in Ceylon and Singapore before opening a branch in Shanghai. This bank heavily backed an effort by Great Britain to grow cotton in India and Ceylon to replace much needed cotton from the Confederate States of America, which was under blockade by Union forces. When the American Civil War ended the bank failed. All notes were identical except for place of issue. This remainder was on the Singapore branch.



Storage of opium in an Indian warehouse, awaiting shipment to China, 1850s.

Notes of the early Indian banks which did business in China during the early years (1845-1870) are exceedingly rare, seldom offered and beyond the reach of the average collector. The volume of paper notes channeled into traffic by these early banks was comparatively small, in some cases exceedingly so. The biggest exception to this rule was the Hong Kong and Shanghai Banking Corporation, which enjoyed an extensive circulation of its notes in China from the 1870s onward.

In 1864 the largest and most influential of all the foreign banks in China opened its doors. This was the Hong Kong and Shanghai Banking Corporation which was to rise to a position of dominance and was still issuing its own notes and doing business in Hong Kong right up to the Chinese take-over in 1997. The bank was founded by a Scotsman named Thomas Sutherland to finance Far East trade. Particular attention was paid to the initial location of the bank, as the best *fung shui* experts in Hong Kong were called upon to select the site. Here the stranger received the same courtesy and service as he might have found in London, Paris or New York. Over the following decades the bank became a leader in Asia. Notable events included establishing the first bank in Siam (1888) where it printed the country's first bank notes, acting as banker for the Hong Kong government from 1880 onward, and the management of British colonial government accounts in China, Japan, Singapore and elsewhere.

When considering the voluminous bank note issues of the Hong Kong and Shanghai Banking Corporation, all other foreign bank emissions in China appear small by comparison. Aside from the crown colony of Hong Kong, the bank issued paper

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Advertising in the North-China Herald of 17 February 1876, the Hong Kong and Shanghai Banking Corporation reported a paid up capital of five million dollars and branches in eight countries. The bank's Shanghai 1 tael note of 1888 and 1 dollar note of 1913 are shown.

money at one time or another on its branches in Peking, Tientsin, Shanghai, Hankow, Foochow, Chefoo and Amoy. These notes were principally in Chinese dollars; however, tael, Mexican dollar, and currencies based upon the local dollar were also employed. From its head office in Hong Kong the bank also maintained foreign offices in such diverse places as Japan, India, Siam and the Philippines. The Hong Kong, Shanghai Bank functioned as the quintessential center for British banking interests in all of China. The bank's notes were always highly regarded and in great demand.



Shanghai local currency note in the amount of 5 dollars, issued in 1923.

Since all hopes of self-sufficiency were destroyed after the Opium Wars and the indemnities following the Sino-Japanese War (1895) and the Boxer Rebellion (1901), the Ch'ing court decided to raise needed capital through the foreign banks. Thrown into turmoil by these unexpected defeats, China was plunged deeply into debt to pay for war indemnities. China's need for foreign capital was great. The banks that had been established in preceding decades quickly expanded their business to meet these demands. By the end of the nineteenth century a total of nineteen foreign banks with 101 branches were operating in China. These banks, under protection of the extraterritoriality laws, were able to issue their own bank notes, take in large deposits, manage the Maritime Customs revenue and government transfers as well as acting as receiving agents for war indemnities.

The largest loans were negotiated through the Hong Kong and Shanghai Bank. Between 1895-1911 the bank concluded 112 foreign loans worth 1.806 billion silver dollars. Later on, the Republic of China, under its policy of "borrowing foreign capital",

the Chinese military took 468 foreign loans amounting to 1.806 billion dollars. Principal among these business interests was the financing of 2,800 miles of railroads in the Yangtze valley. All these loans were secured by China's salt tax and customs revenues. By making loans to the Chinese government the foreign banks thus established “spheres of influence” in different regions – the Russians in the northeast, the British in the Yangtze valley, the Japanese in the north and central China and the French in the south.

The Chinese characters for the Hong Kong and Shanghai Bank were “Huifeng Yinhang”, which the British pronounced “Wayfung”. When translated these characters meant “abundant remittances”. The opening of the Shanghai branch followed shortly after the headquarters was established in Hong Kong. A Scotsman by the name of David MacLean was the able General Manager. He held the office from 1865-1873 and was responsible for convincing the Imperial Maritime Customs to deposit all its income in the bank, a very lucrative business relationship. New branches were then established wherever the Imperial Maritime Customs had local offices. The bank soon found itself branching out beyond customs deposits into government loans, indemnity collections, the building of railways and even loaning money to the central government in order to raise an army to eradicate the troublesome northern warlords.

During this period, and continuing right up to World War I, Britain and Germany joined forces to create a balance of power aimed at limiting the expansion of Russian and French interests in China. The Hong Kong and Shanghai Banking Corporation and the Deutsche-Asiatische Bank were heavily involved. The effort was largely successful.

By the turn of the twentieth century the Hong Kong and Shanghai Bank had become the most important foreign bank in China. A great variety of bank notes were issued (see Table 1). Since the bank's shareholders had limited liability for these note emissions, the bank was required to hold a one-third specie reserve at all times. As a result, these notes were always secure and never defaulted. The fact that this bank effectively set the Shanghai foreign exchange rates shows the extent of its increasing dominance in Chinese financial matters. The bank's role as custodian of official Chinese funds continued until the Central Bank of China assumed the responsibility after the currency reform of 1935.

The second largest participant, among British banking interests, was the Chartered Bank of India, Australia and China. This bank was originally formed in India in 1857 under a Royal Charter granted by Queen Victoria. The following year it opened a branch in Hong Kong which was given the right to issue bank notes for the crown colony in 1861. The Shanghai branch was opened shortly thereafter.

Initially, the bank's business centered around the shipment of tea from China, coffee and rum from Java and India, and tobacco and spices from the Philippines. A

large portion of its early business involved the discounting of bills for the export of opium from India to China. Transactions in the opium trade generated significant profits for the bank.

In addition to the opium trade, the next largest source of business was in the export of raw cotton due to demand brought about by the American Civil War. The boom in exports provided substantial revenue to the Chartered Bank of India, Australia and China. The bank's expansion continued into the 1900s, leading it to open additional branches in China and across Asia. After the opening of the Suez Canal (1869) and the extension of telegraphic service to China (1871) business increased dramatically. The traditional banking business in exports of indigo and tea from Calcutta, rice in Burma, sugar from Java, wool from Australia, hemp from Manila and silk and tea from China and Japan continued, although surpassed by the growth of raw cotton and cotton products.

Commencing 1861, the Chartered Bank of India, Australia and China was empowered to issue "Notes Payable to Bearer on Demand" at any of its branches. These issues were always within the safeguards required by the colonial banking regulations and met with great acceptance in Hong Kong and elsewhere, with the exception of Shanghai. The Chinese in Shanghai held a prejudice against foreign paper



Five dollar Shanghai local currency note of the Chartered Bank of India, Australia and China dated on the first of September, 1922.



Ten dollar Hong Kong branch issue of 1923.

notes in part because of the refusal of the Customs House there to accept them in payment of dues. As a result of this disfavor, there was never a large sum of notes in circulation. With the Shanghai exception, fiat money issued by the Chartered Bank of India, Australia and China, though small in volume, was always highly regarded by the public.

Another British bank operating in Hong Kong with a branch in Shanghai went by the name of the National Bank of China Limited. Of this institution very little is known. In fact, its very existence would have remained a mystery if it weren't for the discovery of several salesman's samples some years ago. Kahn reports that the National Bank of China Limited was founded in Hong Kong in 1891 and closed in 1911. At that time the bank had a small paid up capital of £ 600,000. Its note circulation was at all times small. Upon closing all notes were fully accounted for, a most unusual feat in China, which would explain their virtual non-existence today.

The Russo-Chinese Bank

From the beginning, the Russo-Chinese Bank was established as a joint-venture bank representing Russian interests in China. One year after its founding (1895), the Russo-Chinese Bank received from the imperial Chinese government a contract for the construction of the Chinese Eastern Railway in Manchuria. This venture was so successful that by the end of 1902 the bank had become the second largest foreign bank in China. The total of all British bank investment, including the Hong Kong and Shanghai Banking Corporation, added up to 33 percent of the foreign investments in China, while the Russo-Chinese Bank alone accounted for 31.3 percent. Different roles were assigned to the bank's principal offices - Peking being basically engaged in political activities and Shanghai in the mercantile exchange business.

Prospering under its railroad charter, the bank issued a series of Mexican dollar denominated notes in 1901 and tael and dollar notes in 1907. As soon as traffic was opened on the Chinese Eastern Railway it began collecting fares for passengers and freight in Mexican dollars. Once the line became fully operational, only roubles were accepted. A large Russian colony grew up in the concession zone along the railway. It was only natural that new trade and industrial enterprises arose from this migration and that the bank served to assist in the extensive development of this new industry and commerce.

The Russo-Chinese Bank suffered greatly after the Russo-Japanese War (1904-5). Having actively financed Russian military operations, the bank lost most of the funds it had accumulated prior to the war. Business declined sharply. To survive, the bank merged with several other imperial Russian banks, emerging as the Russo-Asiatic Bank.



Specimen of Russo-Chinese Bank 100 Mexican dollar note of 1901.

In Part II of this three part series, we shall explore the foreign bank note issues of other nations during the remainder of the imperial reign in China.

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