

# Japanese Banks in Chinese Settlements before the Second World War

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*The Journal of Northeast Asian History*  
**Volume 13 Number 1 (Summer 2016), 107-142**

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## Japanese Banks in Chinese Settlements before the Second World War

Many small-sized shop owners and their workers carried out economic activities in Chinese settlements before the Second World War and established their local banks. This paper analyses the activities of such banks, which have hardly been investigated. Six banks were established in cities where many Japanese nationals were located with receiving approvals through a consul from the Ministry of Finance in Japan on the basis of the Japanese banking laws and submitted semi-annual reports to the Ministry like banks in Japan. They received deposits from, made loans to, and remitted money for small-sized Japanese local merchants. Two banks went bankrupt faced with economic downturn in the 1920s and two were absorbed by the Bank of Chosen, which was the central bank in Korea, in the 1930s. As a result, only two survived the interwar period through the Second World War.

**Keywords:** Japanese banks, emigration, minority business, Chinese settlements, international banking

# Japanese Banks in Chinese Settlements before the Second World War

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## I. Introduction

Modern multinational banks emerged in two waves: the first wave came in the nineteenth century and the second after the 1960s.<sup>1</sup> In the first wave British banks established the most overseas offices, mainly in developing economies, and French and German banks followed suit.<sup>2</sup> In the second wave US banks established the largest number of offices, with British and Japanese banks following their American rivals.<sup>3</sup>

The banks' main motive for international expansion in the first period was principally to "follow the customers". When merchants

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<sup>1</sup> Robert Z. Aliber, "International Banking: A Survey," *Journal of Money, Credit, and Banking* 16 (Nov 1984).

<sup>2</sup> Geoffrey Jones, *British Multinational Banking: 1830-1990* (Oxford and New York: Oxford University Press, 1993).

<sup>3</sup> Norman S. Fieleke, "The Growth of U.S. Banking Abroad: An Analytical Survey," in *Key Issues in International Banking: Proceedings of a Conference Held at Melvin Village, New Hampshire*, ed. Federal Reserve Bank of Boston (Boston: Federal Reserve Bank of Boston, 1977); Thomas F. Huertas, "US Multinational Banking: History and Prospects," in *Banks as Multinationals*, ed. Geoffrey Jones (London and New York: Routledge, 1990).

emigrated to developing countries, new banks or branches had to be established because there were almost no banks that they could trust or that could do corresponding business with European banks. When host countries were culturally or legally near the home country, multinational banking flourished, but when the host country's regulations were tight, it faltered.<sup>4</sup> In the second period, the banks' main motive was also to follow the customers, but in this case the customers were large multinational enterprises, and the banks went beyond national borders in order to secure transactions with them.<sup>5</sup> According to Grubel's typology, this kind of banking is "multinational service banking", and this motive has been statistically analyzed by many authors.<sup>6</sup>

In both periods offices were established in international financial centres such as London and New York. Before the First World War, London functioned as the world's financial centre for both international trade and capital issuance; New York emerged to rival London in the interwar period. After the 1960s the Eurocurrency market developed significantly and the City of London thrived again as its centre because of its lax regulation compared to New York.<sup>7</sup> Grubel classified this second type of multinational banking as "multinational wholesale

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<sup>4</sup> Stefano Battilossi, "The Determinants of Multinational Banking during the First Globalization 1880-1914," *European Review of Economic History* 10 (Dec 2006); Geoffrey Jones, "Banks as Multinationals," in *Banks as Multinationals*, ed. Geoffrey Jones (London and New York: Routledge, 1990).

<sup>5</sup> Herbert G. Grubel, "A Theory of Multinational Banking," *Banca Nazionale del Lavoro* 123 (Dec 1977); Barry Williams, "The Defensive Expansion Approach to Multinational Banking: Evidence to Date," *Financial Markets Institutions & Instruments* 11 (May 2002).

<sup>6</sup> Claudia. M. Buch, "Information or Regulation: What Drives the International Activities of Commercial Banks?" *Journal of Money, Credit, and Banking* 35 (Dec 2003); Robert Grosse and Lawrence G. Goldberg, "Foreign Bank Activity in the United States: An Analysis by Country of Origin," *Journal of Banking and Finance* 15 (Dec 1991); Charles Hultman and L. Randolph McGee, "Factors Affecting the Foreign Banking Presence in the U.S.," *Journal of Banking and Finance* 13 (July 1989).

<sup>7</sup> Youssef Cassis, *Capitals of Capital: A History of International Financial Centers, 1780-2005* (Cambridge: Cambridge University Press, 2006); Sarkis J. Khoury, *Dynamics of International Banking* (New York: Praeger, 1980).

banking”.

The third type of multinational banking, according to Grubel, is multinational retail banking. This is when banks establish an affiliate in a foreign country, collect retail deposits through a network of branches, and make loans to industrial or commercial customers there. It is more difficult to secure retail deposits than wholesale deposits because marketing capability is necessary to attract retail customers.

Although the presence of Japanese banks in international banking has rapidly increased since the 1970s, Japanese banks have conducted international business since the nineteenth century. A number of studies of Yokohama Specie Bank (hereafter, YSB) have illustrated the overseas activities of Japanese banks before 1945; YSB’s activities in the first and second type of international banking have been thoroughly analyzed.<sup>8</sup> Some Japanese banks have also engaged in the third type of international banking, however. Takashima has investigated Japanese local banks on the US West Coast, as well as in Hawaii, Korea, and Manchuria, but his works do not show the overall picture of overseas retail banking before 1945.<sup>9</sup> In this paper I analyze Japanese banks’ multinational banking in

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<sup>8</sup> Kanji Ishii, “Japanese Foreign Trade and the Yokohama Specie Bank, 1880-1913,” in *Pacific Banking, 1859-1959: East Meets West*, ed. Olive Checkland, Shizuya Nishimura, and Norio Tamaki (Basingstoke: MacMillan Press, 1994); “British-Japanese Rivalry in Trading and Banking,” in *The History of Anglo-Japanese Relations, 1600-2000, Volume 4, Economic and Business Relations*, ed. Janet Hunter and Shinya Sugiyama (Basingstoke: Palgrave, 2002); Masanao Ito, *Nihon no taigai kinyu to kinyu seisaku 1914-1936* [Japanese international finance and the monetary policy, 1914-1936] (Nagoya: Nagoya University Press, 1989); Norio Tamaki, “The Yokohama Specie Bank: A Multinational in the Japanese Interest 1879-1931,” in *Banks as Multinationals*, ed. Geoffrey Jones (London: Routledge, 1990); Hiroaki Yamazaki, “The Yokohama Specie Bank during the Period of the Restored Gold Standard in Japan (January 1930-December 1931),” in *Finance and Financiers in European History, 1880-1960*, ed. Youssef Cassis (Cambridge: Cambridge University Press, 1992).

<sup>9</sup> Masaaki Takashima, *Chosen ni okeru shokuminchi kinyushi no kenkyu* [Study on the history of banking in colonial Korea] (Tokyo: Ohara Shinsei Sha, 1978); “Daichiji sekaitaisen zen no Kariforunia ni okeru nihonjin kinyu kikan [Japanese banks in California before the First World War],” *Kinyu keizai* [monetary economics] 216 (1986); “Senzenki Shiatoru ni okeru nihonjin kinyu kikan [Japanese banks in Seattle before the Second World War],” *Keizai riron* [economic theory] 248 (1992); “Nichiro sengo Manshu Chugoku Tohoku-bu ni okeru nikkei jiba ginko no

Guannei (China to the west of Manchuria) before the Second World War, and attempt to answer the following questions: How many banks were established, in what cities in Guannei, and for what purpose(s)? How were they regulated and by whom? Who were their customers? Were they successful? If not, why not? Through answering these questions I expect to explore various features of pre-war Japan's international retail banking.

This paper is organized as follows: in the next section I overview Japanese international banking before the Second World War in order to gauge the extent of local banking in China; in Section 3 I investigate Japanese local banks' activities in Guannei; and in the final section I offer my conclusion.

## II. Overseas banking by Japanese banks before 1945

### 1. Japanese emigration

Japan obtained favorable conditions in treaties with its Asian neighbors through victories in two wars. With victory in the First Sino-Japanese War Japan annexed Taiwan in 1895 and began to build Japanese settlements in Tianjin, Hankow (now Wuhan) and other cities. With victory in the Russo-Japanese War Japan annexed South Sakhalin and acquired the Kwantung Leased Territory (hereafter, KLT) from Russia, as well as the rights to the South Manchurian Railway Zone (hereafter, SMRZ), where it held police authority. In its relationship with Korea, Japan signed a treaty in 1876 allowing Japanese merchants to circulate

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bunseki [Study on local banks in Manchuria after the Russo-Japanese War],” in *Hiroshima Keizai Daigaku souritsu yonju shunen kinen ronbunshu* [The collection of academic papers for the 40th anniversary of HUE], ed. Hiroshima Keizai University souritsu yonju shunen kinen ronbunshu kanko iinkai [the publishing committee for the collection of academic papers for the 40th anniversary of Hiroshima University of Economics (hereafter, HUE)] (Hiroshima: HUE, 2007).

Japanese yen in Korean open ports (Japanese settlements were built in Pusan, Wonsan and Inchon). In 1910 Japan brought Korea under its rule.

With the opening of its ports in 1859 not only did Japan's international trade increase, but emigration to foreign countries also expanded significantly. In 1869 emigration to Hawaii (annexed by the United States in 1898) began and emigration to North America increased from the 1880s, although Japanese emigration to the United States was restricted after 1908. In addition, Japanese emigration to Asia increased in the early twentieth century, especially to countries or regions under Japanese rule. With the Treaty of Versailles Japan obtained the trusteeship of the South Sea Islands, and after the Manchurian Incident the puppet state of Manchukuo was created in 1934. With the global economic slowdown, the number of Japanese emigrants increased from the middle of the 1920s. As emigration to North America was severely restricted, emigration to Brazil increased significantly. When the Brazilian government enacted a law restricting immigration in 1934, however, emigration to Brazil also decreased abruptly. On the other hand, after the Manchurian Incident the number of emigrants to Manchuria increased sharply.

The number of Japanese residents in foreign territories in 1937 was 2,526,598, of which 629,512 lived in Korea, 411,996 in Manchuria, 318,321 in South Sakhalin, 299,280 in Taiwan, 287,771 in North America (including Hawaii), 234,142 in Central and South America, 174,514 in KLT, and 171,062 in other places. While the numbers of people in territories under Japanese rule or strong influence are naturally high, those in North America (particularly, West Coast and Hawaii) and South America (particularly, Brazil) are also high.

## 2. Overseas network of six exchange banks

Offices and subsidiaries of Japanese banks were established in accordance with these flows of goods and people. There were six large

exchange banks which had offices outside of Imperial Japan: YSB, the Bank of Chosen (hereafter, BoC), the Bank of Taiwan (hereafter, BoT) (these three banks were government-related “special” banks, which were established through special legislation other than the Banking Act of 1890), Sumitomo Bank, Mitsui Bank, and Mitsubishi Bank (these three banks were under *zaibatsu* control).

YSB was the largest exchange bank in pre-war Japan and had offices in Sidney, Alexandria, Rio de Janeiro, and Buenos Aires as well as in Asia, the US, and Europe. While the BoC was the central bank of Korea under Japanese rule, it had offices outside of Korea and dealt with civil firms to provide banking businesses in addition to transactions with banks in Korea. The BoT was also the central bank in Taiwan and conducted almost the same businesses with those of the BoC.

Three large *zaibatsu*-related ordinary banks established foreign offices and subsidiaries in the 1910s and thereafter, although these banks had previously conducted foreign exchange business through correspondent banks. Sumitomo Bank had the most foreign offices of the three, and it is the only bank among them that had foreign subsidiaries in the US. Both Mitsui Bank and Mitsubishi Bank had offices in New York, London, and Shanghai and concentrated on trade finance (Mitsui & Co. and Mitsubishi Corp. were their primary customers).

These six banks had offices in Europe and the United States as well as in Asian and conducted exchange business with large trading companies, while YSB and Sumitomo Bank accepted deposits from immigrants and remitted money for them in offices on the US West Coast.

### 3. Establishment of small banks in Asia, the US, and Brazil

In addition to the branches of banks headquartered in Japan, banks were established outside of Japan proper by Japanese nationals. Here, I will briefly analyze the establishment of banks by region: Taiwan, Korea,

Manchuria, the US, and Brazil, where many Japanese nationals carried out economic activities. I will closely analyze banks in Guannei in the next section. First, in Taiwan, the Taiwan Savings Bank and the Industrial and Commercial Bank of Taiwan were established, with the former being absorbed by the latter in 1912. A new Taiwan Savings Bank, however, was established in 1921.

Second, in Korea only five banks were established between 1907 and 1914. Although many small banks were established between 1914 and 1920, the number decreased in the 1920s due to bank consolidation. The Industrial Bank of Korea, a “special” bank which issued bonds and made long-term loans for the development of Korea, was established in 1918. In 1927 it had 52 branches in Korea, while three ordinary Japanese banks headquartered in Korea had a total of only 23 branches and two sub-branches (two other Japanese banks headquartered in Korea had no branches), and four ordinary banks headquartered in Japan had 16 branches in Korea. As the BoC had nine branches and one sub-branch, the two “special” banks were very influential in Korea.

Third, in Manchuria (including the KLT) eleven banks were established between 1906 and 1914, five of which had one or more branches. In particular, the Shoryu Bank (which was established jointly by the Chinese and Japanese in 1906 and came under the Yasuda zaibatsu in 1910) had five branches in 1914. Many small banks were also established between 1914 and 1920, but they merged in the 1920s facing bad debt problems. The role of “special” banks became even more important in Manchuria than in Korea in the 1930s. The Industrial Bank of Manchuria (half owned by the Manchukuo government and the other half by the BoC), which was established to take over the businesses in Manchukuo of the BoC, Shoryu Bank and Manchuria Bank, began operation in 1937. Shoryu Bank and Manchuria Bank were the two largest Japanese banks in Manchukuo at that time.

Banks were also established outside of Imperial Japan, where the Japanese authorities maintained little influence. In Honolulu, two

Japanese banks were established before 1914. Their main business was receiving money from immigrants and remitting it to the homeland. While one bank closed its doors in 1915, the other bank and a subsidiary of Sumitomo Bank, which was established in 1916, were in operation until 1941.<sup>10</sup> In California, at least ten banks were established around 1907, but eight were closed by 1910 either due to orders from the California state authorities or to bankruptcies.<sup>11</sup> In Washington State three banks were established around 1907 and continued to conduct business until after the First World War.<sup>12</sup> On the US West Coast, however, local Japanese banks disappeared because banks faced difficulties in the 1920s, and no banks were newly established due to local authorities' control and the relatively stable number of Japanese immigrants. In California, two Japanese banks continued operation after the War, but one was sold to an American bank in 1923 and the other was taken over by Sumitomo Bank's subsidiary. In Washington State, three Japanese banks were in operation after the War, but the Japanese Commercial Bank (later renamed the Pacific Commercial Bank) took over the other two banks' operations and was ordered closed by the state financial authorities in 1931.

Finally, in Brazil, where the number of Japanese immigrants increased rapidly from the 1920s until 1935, four Japanese banks were established in the 1930s. These banks accepted deposits from Japanese immigrants and grew rapidly. In 1938 they had a total of 15 branches;

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<sup>10</sup> *Sumitomo Bank, Sumitomo Ginko hachijunen shi* [Eighty-year history of Sumitomo Bank] (Osaka: Sumitomo Bank, 1979), 214-292.

<sup>11</sup> Mira Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge, MA and London: Harvard University Press, 1989), 461.

<sup>12</sup> Takashima, "Japanese banks in Seattle." At first, as the number of immigrants increased, three small banks based in Japan established offices in Honolulu, Seattle, and San Francisco respectively. The business of the branches was the same as that of other Japanese banks established there, and the three offices were all short-lived. In Manila, branches were opened by two small banks in 1904, but they were also short-lived.

this number increased to 35 by 1941.<sup>13</sup>

As the number of Japanese residents increased small banks were established for their local financial services and remittance of money to the homeland. With heightened financial regulation (in California), restriction of immigration (in the US and Brazil), slowdown in the economy (everywhere but Brazil), and bank consolidation (Korea and Manchuria), the number of banks decreased. In the next section I analyze the establishment and activities of Japanese banks in Guannei.

### III. The establishment and activities of Japanese banks in Guannei

#### 1. The regulation and monetary standard of Japanese banks in China

Before analyzing the activities of Japanese banks in Guannei it is necessary to explore how Japanese banks in China were regulated by the financial authorities and which standard—silver or gold—they adopted, because Japan adopted the gold standard in 1897 and China remained on the silver standard until the 1930s.

The Banking Act of 1890 was enforced in 1893, from which point banks were required to receive governmental approval at the time of establishment, submit a semi-annual report to the Minister of Finance, and be willing to undergo governmental inspection at any time. In 1916 the Act was amended, forcing banks to acquire governmental approval for their name, capital, and headquarter location at the time of

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<sup>13</sup> Henri Delanghe, “The Origin of Significant Japanese-Brazilian Trade and Investment Relations: Origin, Content and Consequences of the 1935 Japanese Trade Mission to Brazil,” Center for Economic Studies, Katholieke Universiteit Leuven, Discussion Paper Series (DPS) 99.04, 1999; Nanbei Bank, *Nanbei Ginko nijunen shi* [Twenty-year history of Nanbei Bank] (Sao Paulo: Nanbei Bank, 1960), 22; Tozan Noji, *Tozan jigyo* [Tozan business] (Tokyo: Tozan Noji Co., 1940).

establishment; they also had to receive approval each time they wished to open a new branch. In addition, the Minister of Finance had the right to stop their operations, force them to reelect their directors, and withdraw approval for banking. With the enactment of the Banking Law of 1927, banks were required to have capital of one million yen or more by the end of 1932.

Although these regulations were applied to banks headquartered in Japan, similar regulations were applied to banks established by Japanese nationals in pre-colonial Korea and China. In 1905 a law on banks in foreign territories stipulated that the government could legally regulate Japanese banks in foreign soil by issuing an imperial decree. This law was thought to be applied to pre-colonial Korea and later to China.<sup>14</sup> Therefore, Japanese nationals had to receive the approval of the Minister of Finance through a consul to establish a bank in China, and once the bank was established it had to obey the regulations. Before 1915 it was clearly stipulated that the consul could withdraw the bank's approval if it did not obey the order at the time of establishment, and banks were under stricter control than in Japan proper. From 1933 to 1937, however, Shanghai Bank had only 100,000 silver dollars (equivalent to Mexican dollar) in capital, which was much less than the minimum amount of capital of one million yen, and regulations were more lax in China. In this way, the regulation of Japanese banks in China was slightly different from that in Japan, although banks established in China based on Japanese law were under almost identical regulations as those in Japan.

As for the standard, the Japanese government minted one yen silver coins, which was almost identical in value to the Mexican dollar, before the adoption of the gold standard. After its adoption silver yen coins were banned in Japan, but they continued to be used in foreign countries

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<sup>14</sup> After the annexation of Korea the Governor-General of Korea regulated banks in Korea in close cooperation with the Japanese Ministry of Finance (hereafter, MoF).

including China. When Japanese people ran banks in China they naturally used the currencies circulating in the region where they operated. During and soon after the First World War the influence of the yen grew due to a large Japanese trade surplus, and yen circulated in the northern part of Guannei. Thus, some banks established in the region after the Great War adopted the Japanese (gold) yen, although banks in the southern part of China continued to use the silver yen (dollar). Banks which chose the Japanese yen as their standard, however, suffered from the fluctuation of the silver price and Japanese yen's receding influence in the 1920s.

## 2. Banks established by Japanese nationals in Guannei

While nine banks were established by Japanese nationals in Guannei around the time of the First World War, three banks in Tianjin were virtually the same bank that was reorganized twice; thus, one bank was established in each of seven cities (Table 1). Qingdao, Shanghai, Tianjin, Jinan, Hankow, and Beijing were the six Chinese cities with the largest numbers of Japanese residents in 1917, and Changsha had the thirteenth largest Japanese population (Table 2). Out of seven banks, Business Bank of Beijing merged with Commerce and Industrial Bank of Tianjin to form New Commerce and Industrial Bank of Tianjin; the China-Japan Bank and Qingdao Bank both failed in the 1920s; Shanghai Bank and the Bank of Tianjin (the reorganized and renamed New Commerce and Industrial Bank of Tianjin) were acquired by the BoC; and Jinan Bank and the Hankow Bank survived economic and political turmoil in interwar China through the Second World War. In the following sections I investigate who established them and for what purposes, who were their customers, and why they failed, were acquired, or survived.

Table 1. Japanese banks in Guannei

Name	Established in	Initial capital	Afterwards
Commerce and Industrial Bank of Tianjin	1912	100,000 silver yen	Business was taken over by the New Commerce and Industrial Bank of Tianjin
Business Bank of Beijing	1915	100,000 dollars	Business was taken over by the New Commerce and Industrial Bank of Tianjin
The China-Japan Bank	1917	100,000 yen	Dissolved in 1926
New Commerce and Industrial Bank of Tianjin	1918	100,000 silver yen	Business was taken over by the Bank of Tianjin
Shanghai Bank	1918	100,000 dollars	Acquired by the BoC in 1937
Qingdao Bank	1919	5,00,000 yen	Suspended in 1926
The Bank of Tianjin	1920	5,000,000 yen	Acquired by the BoC in 1938
Jinan Bank	1920	1,000,000 yen	
The Hankow Bank	1920	1,000,000 yen	

Notes (1) The capital of Commerce and Industrial Bank of Tianjin was increased to 300,000 silver yen in 1914.

(2) The China-Japan Bank was first located in Changsha and moved to Hankow in 1923.

(3) The Japanese silver yen was almost identical to the Mexican dollar.

Sources: Semi-annual report to shareholders, each bank, each period.

Table 2. Number of Japanese Residents in Cities in Guannei

	1897	1907	1917	1927	1937	1940
Tianjin	45	2,387	3,738	6,851	10,861	42,173
Jinan			2,867	1,855	1,873	19,641
Beijing	33	758	1,168	*	*	62,159
Qingdao			15,986	13,294	15,022	32,492
Shanghai	823	6,268	13,382	25,827	23,672	65,401
Hankow	15	1,387	2,188	845	1,700	10,279
Changsha		123	227	63	84	
Others	239	4,009	7,565	2,980	6,133	133,267
Total	1,155	14,932	47,121	51,715	59,345	365,412

Notes (1) The 1927 and 1937 numbers for Tianjin include Japanese residents of Beijing.

(2) Because the territories are classified as territories covered by consuls, the numbers above differ from the actual number of Japanese residents in each city.

Source: Annual Imperial Japan Statistics, each year.

In addition to these banks owned and managed by the Japanese, two banks jointly owned and managed by Japanese and Chinese were established in Guannei based on Chinese law. One was Dadong (Daito) Bank and the other was China Exchange (Zhonghua Huiye, Chuka Waigyo) Bank. Dadong Bank's capital was 2.5 million silver dollars, 60% of which was held by Chinese investors and 40% by Japanese investors, and it had a head office in Beijing and branch offices in Tianjin and Shanghai. It began business in 1921 and suspended payment in 1927. China Exchange Bank was formed by officials of the Republic of China (Beijing) and elite Japanese businesspeople. Its capital was ¥10 million, of which 50% each was invested by Chinese and Japanese investors. It began business in 1918 with a head office in Beijing and branch offices in Shanghai, Tianjin, and Mukden (now Shenyang). Due to political turmoil it closed its doors in 1927. These two banks are not analyzed in this paper because it is difficult to directly compare them with Japanese banks.

### 3. Failed banks

#### (1) The China-Japan Bank (Changsha)

The China Industrial Development Co. was established in 1913 jointly by the Chinese and Japanese (headquartered in Tokyo). By 1914 it was reorganized as the China-Japan Industrial Development Co. (hereafter, CJIDC), and its main business was investment in China.<sup>15</sup> Officials of CJIDC planned to establish a bank with Chinese and Japanese partners in Changsha. As an anti-Japanese movement arose in Hunan Province, however, they abandoned this plan.<sup>16</sup> Instead, in 1916 a number of Japanese people with close relationships with CJIDC and a few Chinese decided to establish a bank.<sup>17</sup> The China-Japan Bank was established based on Japanese laws, with four directors (three Japanese and one Chinese) and two auditors (one Japanese and one Chinese). Its capital was ¥1 million, 98% of which came from Japanese investors. Shareholders borrowed money from the BoT, which had committed to the bank plan from the beginning, to invest.<sup>18</sup> The provincial authorities, however, opposed the new bank and insisted that any bank established in Changsha that held no foreign settlement needed Chinese authorities' approval, even if it was owned by foreigners. The Japanese consul in Changsha opposed this assertion and the Japanese government supported him, and the China-Japan Bank was finally established and began

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<sup>15</sup> Yonejiro Noguchi, *Chunichi Jitsugyo Kabushiki Kaisha sanju nenshi* [Thirty-year history of CJIDC] (Tokyo: CJIDC, 1943).

<sup>16</sup> Letter from CJIDC to Keishiro Matsui, Vice-Foreign Minister, 16 Oct. 1915. Japan Center for Asian Historical Records, National Archives of Japan, Reference Number (hereafter, JCAHRRN) B10074247100.

<sup>17</sup> Letter from Tetsukichi Kurachi and Noriyoshi Ozaki to Kijuro Shidehara, Vice-Foreign Minister, 25 Mar. 1916. JCAHRRN, B10074247100.

<sup>18</sup> Semi-annual report to shareholders, 1st half of 1917; Letter from Tetsutaro Sakurai, President of the BoT to Shunrokuro Mori, Director-General of the Banking Bureau of the MoF, 9 Oct. 1918. JCAHRRN, B10074247300.

operation in 1917.<sup>19</sup> As most Japanese directors were in Tokyo, a managing director in Changsha administered it.

After the First World War, the price of antimony, one of Hunan Province's main export items during the War, dropped significantly and political turmoil intensified there. Due to such conditions the China-Japan Bank faced a run in August 1918, but it survived the sudden request for money with funds transferred from Hankow.<sup>20</sup> Moreover, the bank accumulated many bad debts afterwards and by 1920 new directors were dispatched from the BoT, which held 40% of the bank's shares (the ratio rose to 63% the following year). They tried—in vain—to collect their money from customers. At the end of June 1921 the bank's total amount of loans (including bills discounted) was ¥485,410, of which bad debts comprised ¥429,340 (88%). While 92% of the loans to twenty-nine Chinese customers (¥407,652 out of ¥441,720) was non-performing, 50% of the loans to twelve Japanese customers (¥21,688 out of ¥43,690) was also non-performing. Although both ratios were very high, the lack of Chinese customer information was more formidable. The bank employed a comprador in order to evaluate Chinese customers' creditworthiness, but a large amount of bad debts accrued nonetheless. Generally a comprador secured a loan book against losses with gaining fees, but he refused to pay back any money because the loss was too huge for him and he claimed he had no responsibility for loans once being fired by the BoT.<sup>21</sup>

As the political climate in Changsha became more and more unstable, the China-Japan Bank asked the Japanese government for

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<sup>19</sup> Letter from Consul Sakai to Minister Motono of Foreign Affairs, 1 Apr. 1917. JCAHRRN, B10074247100.

<sup>20</sup> Letter from Genhachi Yagi, Consular Agent to Shinpei Goto, Minister of Foreign Affairs (hereafter, MFA), 30 Aug. 1918. JCAHRRN, B10074247300.

<sup>21</sup> Letter from Rinichi Ikenaga, Consul to Koya Uchida, MFA, 26 Dec. 1921. JCAHRRN, B10074247500.

permission to move its head office to Hankow. Because the government feared fierce competition with the Hankow Bank, it allowed the transfer on the condition that the bank would not transact with Japanese residents in Hankow. The bank moved to the Hankow<sup>22</sup> branch of the BoT in 1923, and concentrated on collecting loans in Changsha, again in vain. In 1927 the shareholders of the bank, virtually all members of the BoT, decided to dissolve the China-Japan Bank, and the BoT's attempt to enlarge its activities in Changsha, especially with Chinese customers, ultimately proved fruitless.

## (2) Qingdao Bank

After the outbreak of the First World War the Japanese army defeated the German army in Shandong Province. The Japanese army remained there until 1922, and during this period the number of Japanese residents in Qingdao, which became an open port city, increased significantly. When Qingdao Bank was established in 1919 with the army commander's permission (before the creation of a consulate in 1922, permission for the establishment of banks or bank branches was issued by the commander), its capital was ¥500,000 and 98% of its shares were held by Japanese in Qingdao, with the remaining 2% held by Japanese elsewhere.<sup>23</sup> When they established the bank they took over the assets and liabilities of the Qingdao Credit Association because there were no other banks that dealt with middle class merchants in the area.<sup>24</sup> Legally Qingdao Bank remained an association at the time of establishment and the first attempt to reorganize it into a corporation in 1920 failed due to the collapse of

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<sup>22</sup> Memorandum by Tetsuji Takagi, Director of the China-Japan Bank, 18 Jun. 1923. JCAHRRN, B10074247600.

<sup>23</sup> Semi-annual report to shareholders, 2nd half of 1919. JCAHRRN, B10074162000. It had both gold and silver accounts (its capital was paid up with Japanese yen), but most assets and liabilities were held in gold accounts.

<sup>24</sup> Tenei Mizuno, *Santo nisshijin shinyo hiroku* [Credit conditions of the Japanese and Chinese in Shandong] (Qingdao: Chintao Koshinjo, 1926), 428.

stock markets. In 1919 four Japanese banks—YSB, the BoC, Longkou Bank in Dalian, and Nissho Bank in Osaka—had branches in Qingdao, Shoryu Bank in Dalian set up a branch the following year and Jinan Bank did so in 1923.<sup>25</sup> Thus, competition among Japanese banks in Qingdao became fiercer, contrary to the founders' initial assumption.

With the collapse of asset prices in 1920 small banks' assets deteriorated. Nissho Bank suspended payments in 1922, and Longkou Bank closed its doors in 1924 and was absorbed by Shoryu Bank the next year.<sup>26</sup> Qingdao Bank tried to collect loans and cut expenses as early as 1921, but its deposits decreased from ¥496 thousand at the end of 1922 to ¥84 thousand by the end of 1923. The Ministry of Foreign Affairs discovered (1) that Qingdao Bank took its shares as collateral for loans, (2) that it issued certificates of deposit with securities of Qingdao Exchange's stocks, (3) and that its directors assumed the Exchange's directorship.<sup>27</sup> Qingdao Bank suffered tremendous losses from bad loans (about ¥150,000), deposit certificates (about ¥160,000), and latent loss of properties (about ¥25,000).<sup>28</sup> Interlocked directorship, lax loans to related firms of bank directors, and bank runs caused by small bank closures were typical features of bank failures in interwar Japan. Due to factors in common with banks in Japan proper, Qingdao Bank closed down in 1926. The difference between this bank and more typical failures was that it paid back almost all of the depositors' money, although how it could collect loans is unknown.

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<sup>25</sup> Letter from Yasusaburo Mori, Consul to Koya Uchida, MFA, 20 Jul. 1923. JCAHRRN, B10074186300.

<sup>26</sup> Mizuno, *Credit conditions*, 442; Yasuda Fudosan, *Yasuda Hozensha to sono kankei jigyoshi* [History of Yasuda Hozensha and its related businesses] (Tokyo: Yasuda Fudosan, 1974), 635.

<sup>27</sup> Letter from Osamu Matsumoto, Director-General of Banking Bureau of the MoF to Matsuzo Nagai, Director-General of Trade Bureau of Ministry of Foreign Affairs, 3 Dec. 1923. JCAHRRN, B10074162200.

<sup>28</sup> Inspection of Qingdao Bank, 25 Sep. 1923. JCAHRRN, B10074186300.

## 4. Acquired Banks

### (1) The Bank of Tianjin

The Bank of Tianjin was formed by shareholders of New Commerce and Industrial Bank of Tianjin (hereafter, NCIBT) by taking over NCIBT's assets and liabilities. NCIBT was formed by shareholders of Commerce and Industrial Bank of Tianjin (hereafter, CIBT) and the Business Bank of Beijing (hereafter, BBB) by taking over both banks' assets and liabilities. Therefore, in this section I analyze CIBT, BBB, and NCIBT before exploring the activities of the Bank of Tianjin.

In 1908 some Japanese residents in Tianjin made plans to establish a small bank with the Chinese, but their plans did not materialize.<sup>29</sup> Also, in 1911 Japanese merchants and industrialists there formed a credit association to facilitate their finances and encourage savings, but it is unknown whether the credit association was related to the earlier plans. As medium- and small-sized merchants and industrialists faced financial distress the following year, they decided to reorganize the credit association into a bank by issuing new shares. CIBT was established as a corporation with capital of 100,000 silver yen. Its shareholders were all Japanese nationals and 1,930 shares (out of 2,000 total shares) were held by residents in Tianjin.<sup>30</sup> Although YSB also had a branch in Tianjin, CIBT was established as a bank for small businesses. Two years later CIBT's capital was raised to 300,000 silver yen. It not only took deposits from and made loans to small businesses there, it also transferred money to Japan, especially Osaka, and bought and collected foreign exchange bills, mainly between Tianjin and Osaka.<sup>31</sup> In 1918 it decided to virtually merge with BBB in order to expand its operation.

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<sup>29</sup> Letter from Narakichi Obata, Consul to Jutaro Komura, MFA, 7 Nov. 1908. JCAHRRN, B10074249500.

<sup>30</sup> Semi-annual report to shareholders, 1st half of 1912. JCAHRRN, B10074165900.

<sup>31</sup> Semi-annual report to shareholders, 1st half of 1916. JCAHRRN, B10074166100.

In 1913 Beijing Credit Association was formed to facilitate financing for small capitalists, although YSB also already had a branch there. BBB was established in 1915 as a reorganization of the association, with capital of 100,000 silver dollars.<sup>32</sup> It issued 2,000 shares, of which at least 1,580 were held by Japanese residents in Beijing, and the remaining shares were held by Japanese nationals elsewhere by the end of 1916.<sup>33</sup> Its exchange business was less active than that of CIBT, because it only had CIBT as a correspondent bank, and it decided to merge with CIBT in 1918.

In order to consolidate the two banks into one, in 1918 NCIBT was newly established with capital of 1 million silver dollars, a head office in Tianjin, and a branch in Beijing. Sixty-six percent of NCIBT shares were held by Japanese residents in Tianjin, and 18% by Japanese in Beijing, though two Chinese shareholders also existed. NCIBT took over the assets and liabilities of both CIBT and BBB. Because five directors were from CIBT and two were from BBB, and the new president was the former president of CIBT, Tianjin merchants took the initiative in the new bank.

In 1920, however, NCIBT was again reorganized as the Bank of Tianjin, with ¥5 million in capital. One hundred thousand shares were issued, of which 90,000 shares were allotted to NCIBT shareholders and 10,000 shares were publicly offered. The purpose of reorganization was to change its monetary standard from the silver yen (dollar) to Japanese yen officially linked to gold. During the War banknotes of the BoC linked to Japanese yen began to circulate rapidly in Tianjin (especially after the opening of the Tianjin branch of the BoC in 1918), while they rarely did before the War. Therefore, changing the monetary standard was advantageous for the bank. In addition, Japanese shareholders who

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<sup>32</sup> Letter from Tsuneo Matsudaira, Consul to MFA, 30 Mar. 1915. JCAHRRN, B10074166200.

<sup>33</sup> Semi-annual report to shareholders, 2nd half of 1916. JCAHRRN, B10074166000.

returned to Japan could hold shares without bearing any exchange risk. Because the bank was thought to be vulnerable to fluctuations of the silver price if it made loans with silver, it planned to employ a comprador to increase Chinese customers and their deposits denominated in silver tael. In short, the bank decided to adopt an “on an even keel” policy.<sup>34</sup> In 1922, in order to enlarge its customer base to include the Chinese, it altered its articles of association. While the previous number of directors had been seven or less, this was increased to ten or less, although at least seven had to be Japanese. Moreover, a Chinese person could be an adviser for the bank, while he or she had to be elected from among shareholders. In addition to its activities in China the Bank of Tianjin also set up an Osaka branch in 1921 because buying and collecting exchanges between Tianjin and Osaka was one of its main businesses.<sup>35</sup> In short, it adopted a very aggressive strategy.

The bank, however, faced a crisis soon after launching this new strategy. Deposits decreased from ¥1,830 thousand in June 1921 to ¥964 thousand in June 1923. Plus, as one third of its loans were given on the security of real estate, it was difficult to recover them. Moreover, as it made loans to its directors out of favoritism, intense conflicts among directors arose. In order to cope with this crisis all of the directors resigned in 1924 and they entrusted the nomination of new directors to the Japanese Consul in Tianjin. He asked the Tianjin branch manager of YSB to investigate the bank and recommend new executives.<sup>36</sup> As a result, the current president and a managing director resigned, and the

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<sup>34</sup> Letter from Shinichiro Funatsu, Consul to Koya Uchida, MFA, 12 May 1920; Minutes of the shareholders meeting on 21 Apr. 1920; Reasons for reorganization. JCAHRRN, B10074178300.

<sup>35</sup> Semi-annual report to shareholders, 2nd half of 1921. JCAHRRN, B10074178400; Letter from Giichi Ono, Director-General of the Banking Bureau of the MoF to Gi Nakamura, Director-General of the Trade Bureau of the Ministry of Foreign Affairs, 26 Sep. 1919. JCAHRRN, B10074249900.

<sup>36</sup> Letter from Shigeru Yoshida, Consul to Hikokichi Ijuin, MFA, 15 Dec. 1923. JCAHRRN, B10074178500.

president at the time of its establishment was reinstalled. Two years later, an ex-manager of the Tianjin branch of Longkou Bank, who had been employed by YSB, took office as a manager-director.<sup>37</sup>

The new president took a defensive strategy. First, in March 1924 he closed the Osaka branch, which had accumulated a loss of ¥50,000. Second, in 1925 he removed the articles of association that enabled the bank to nominate Chinese directors and advisers.<sup>38</sup> Third, in order to restore confidence from depositors and other bankers the bank endeavored to collect loans, seize collateral real estate, and avoid making large new loans.<sup>39</sup> It had to do this because the BoC abolished gold accounts in Tianjin in 1925, and the circulation of gold banknotes diminished.<sup>40</sup> In addition, Chiang Kai-shek conducted Northern Expeditions and unified China, and during this campaign many Japanese returned to Japan and withdrew their deposits from the bank. Finally, in 1929 it reduced its capital from ¥5 million (paid-up capital ¥1,250,000) to ¥2.5 million (paid-up ¥625,000), and with the gains from stock retirement and reserves it wrote off bad loans of ¥502 thousand, losses in gold and silver accounts of ¥160 thousand, and other losses.

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<sup>37</sup> Letter from Hachiro Arita, Consul to Kijuro Shidehara, MFA, 2 Feb. 1926. JCAHRRN, B10074178700.

<sup>38</sup> An application for amendment to articles of association, 16 Feb. 1925. JCAHRRN, B10074178600.

<sup>39</sup> Semi-annual report to shareholders, 1st half of 1924. JCAHRRN, B10074178600.

<sup>40</sup> Letter from Hachiro Arita, Consul to Kijuro Shidehara, MFA, 15 Sep. 1925. JCAHRRN, B10074178600.

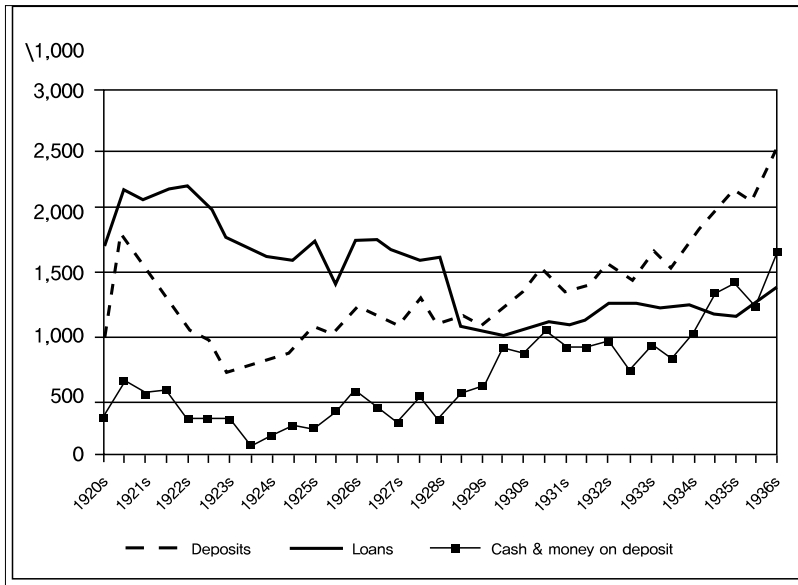


Figure 1. Some Accounts of the Bank of Tianjin

Note: 1920s means the end of the second half of 1920.

Source: Semi-annual report to shareholders, the Bank of Tianjin, each period.

With these measures confidence in the bank was gradually restored among local residents and deposits increased (Figure 1). The loans, however, did not increase and deposits in other banks increased in equal proportion to those in the Bank of Tianjin. The largest share of deposits went to YSB, and the second largest to the BoC; by region Tianjin received the most and Beijing the second most, although figures between 1928 and 1933 are available only sporadically. In interwar Japan cautious banks bought a large number of bonds, but Japanese banks in China did not follow suit. While bonds were used for collateral when borrowing money from other banks, especially from the Bank of Japan, deposits in YSB or the BoC were more secure for banks in China because there was no central bank there. Although this cautious strategy was effective during unstable circumstances, its *raison d'être* as a financial

intermediation had already diminished. Finally, with the financial authorities' encouragement the Bank of Tianjin was acquired by the BoC in 1939. It is assumed that the BoC expanded its business in northern Guannei because it had sold its assets and liabilities in Manchuria to the Industrial Bank of Manchuria and retreated from that region in 1937.

## (2) Shanghai Bank

The Shanghai Credit Association was formed by merchants who were too small to be customers of YSB, with instructions from the manager of YSB's Shanghai branch. In 1918 it was reorganized as Shanghai Bank, with 200,000 silver dollars in capital, although YSB, the BoT, the BoC, Sumitomo Bank, and Mitsui Bank already had branches in Shanghai. At least 42% of its shares were owned by Japanese residents in Shanghai. Shigeru Matsumoto, an exchange broker and the bank's largest shareholder, assumed the presidency. Its main business was taking deposits and making loans, although it also bought and sold a few foreign exchanges.

Although its deposits increased gradually to 1,160 thousand silver dollars at the end of 1926, Shanghai Bank suspended payments the next year because of an outflow of deposits due to the Northern Expeditions. In addition to this direct cause of suspension it had other problems. First, it had accumulated non-performing loans. Second, it incurred a heavy loss due to fraudulent actions by the manager. Third, with the decline in real estate prices it also incurred a latent loss of properties. In order to write off these bad assets it had to reduce its capital and reserves. Its paid-up capital was 100,000 silver dollars at the end of 1918, and it was raised to 150,000 silver dollars in 1920. After the suspension of payments the capital was fully paid up to 200,000 silver dollars in the first half of 1928, and decreased to 50,000 silver dollars in the next period. With the reduction of reserves of 60,000 silver dollars the carried

forward loss of 205,143 silver dollars was written off.<sup>41</sup>

According to an investigation of bank accounts during the suspension, 65% of the deposits were taken in silver dollars, 19% in yen, and 16% in tael. On the other hand 68% of loans were made in silver dollars, 20% in tael, and 11% in yen. When classified by the nationality of customers, 97% of current and term deposits (the breakdown of petty current deposits is unknown) were taken from Japanese clients and 89% of loans were made to Japanese people or Japanese firms.<sup>42</sup> Even though the bank's customer base was confined to Japanese, transactions were carried out mainly in silver dollars.

In order to reopen the bank new management had to be elected. Kahei Hasegawa, a merchant who had made a fortune as a broker of cotton and stocks on the Shanghai exchange, acquired 705 shares (the total number of stocks was 4,000), making him the largest shareholder, and he assumed presidency in the first half of 1928. As Hasegawa lived in Hyogo (near Osaka) at the time, however, his manager in Shanghai became director-manager and ran the bank. After compulsory composition was made with depositors and other creditors, it began to operate in June 1928. The bank's deposits increased significantly and it paid back its composition obligation as early as 1931. At first glance Hasegawa's management appeared sound, because between June 1928 and June 1931 the amount of deposits increased by 445 thousand silver dollars (deposits increased by 969 thousand silver dollars while composition obligations decreased by 524 thousand silver dollars) and money on deposit increased 581 thousand silver dollars. In addition, the bank raised its capital from 50,000 silver dollars to 100,000 silver

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<sup>41</sup> Semi-annual reports to shareholders, 2nd half of 1928. JCAHRRN, B08061400900. President Matsumoto and the fraudulent manager provided the bank with their personal properties to compensate the losses (Letter from Yada, Consul to Tanaka, MFA, 22 May 1927. JCAHRRN, B08061400600).

<sup>42</sup> Documents relating to a rescue plan of Shanghai Bank, 1 June 1927. JCAHRRN, B08061400600.

dollars. However, out of 709,328 silver dollars of the outstanding money on deposit, 366,745 silver dollars (52%) were deposited at Hasegawa & Co. in Osaka. This was essentially another form of concentration of loans to directors' businesses.<sup>43</sup> For unknown reasons, however, between June 1931 and June 1934 the portfolio of the bank changed. During those three years money on deposit decreased by 180 thousand silver dollars (money deposited at Hasegawa & Co. decreased by 289 thousand silver dollars) and securities increased by 373 thousand silver dollars while deposits increased by 116 thousand silver dollars. On the other hand, the Japanese government's US dollar bonds and stocks in Japanese companies increased during this period. Shanghai Bank invested in securities that could earn higher yields but bore higher risks. Its investment policy was less sound than that of the Bank of Tianjin.

In March 1937 Shanghai Bank came under the control of the BoC, which was the largest shareholder of the bank by that time (there are no available documents between June 1934 and December 1936). At the end of June 1937 the BoC held 750 shares in the bank and the president, Sueho Ukon, had been dispatched from the BoC.<sup>44</sup> At the end of June 1941 the BoC held 750 of 2,000 fully-paid stocks and all 38,000 of the bank's quarter-paid stocks.<sup>45</sup> As Shanghai Bank took ¥42 m. of deposits and had ¥34 m. of money at deposit (presumably in the BoC), it had virtually become a money collecting institution from the Japanese public for the BoC in order to curb inflation.

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<sup>43</sup> Semi-annual report to shareholders, 1st half of 1931. JCAHRRN, B08061401300.

<sup>44</sup> Semi-annual report to shareholders, 1st half of 1937. JCAHRRN, B08061401600. In this period the bank changed its capital from 100,000 silver dollars to ¥100,000 and decided to raise it to ¥2 million. In 1930 Hasegawa desired to sell the bank to another bank and retire from the banking business after he paid back the composition obligation (Letter from Kuramatsu Murai, Consul to Kijuro Shidehara, MFA, 29 Nov. 1930. JCAHRRN, B08061403700).

<sup>45</sup> Semi-annual report to shareholders, 1st half of 1941. Japan Digital Archives Center.

## 5. Banks that Survived

### (1) The Hankow Bank

Although YSB, the BoT, and Sumitomo Bank, which mainly conducted exchange business, had branches in Hankow, small merchants and industrialists demanded financial institutions that could provide local financial services to them. In 1920 the Hankow Bank, with one million yen in capital, was established based on mutual financial associations and savings associations that had operated there. At the time of establishment 20,000 shares were issued (a quarter was paid up), of which 18,995 were held by Japanese, and 90% of the shareholders (17,980 shares) were residents of Hankow.<sup>46</sup> Because the bank was formed by small local Japanese merchants and industrialists to serve their financial needs, it bought or sold almost no foreign exchanges (after the abolishment of Japanese postal offices in China it transferred a small amount of money).

The management was very cautious in the 1920s. After the amount of loans increased to ¥538 thousand in 1922, it leveled off during the 1920s because the bank avoided making bad loans. Because the amount of deposits increased gradually, the amount of money on deposit increased at the same pace. As the banking business in Hankow did not grow, it planned to open a branch in Shanghai in 1927 (Shanghai Bank had suspended payment at that time). The financial authorities approved the plan and the bank opened its Shanghai branch in 1930, acquiring the business of the Shanghai Credit Association (which was formed by depositors of Dadong Bank, which had failed in 1927). Hankow Bank established its Shanghai branch to invest silver money there and utilize the Shanghai money market when sending money between Japan and

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<sup>46</sup> Letter from Asanoshin Segawa, Consul to Koya Uchida, MFA, 4 Jun. 1920; Shareholders' list, the Hankow Bank. JCAHRRN, B10074177200.

Hankow.<sup>47</sup> Moreover, as its activities in Shanghai expanded, the Bank opened a sub-branch there in 1932.<sup>48</sup> While the amount of deposits of the Hankow office was ¥699,829 and that of loans ¥300,951, those in Shanghai were ¥993,017 and ¥963,367 respectively (total numbers of two offices) at the end of 1933.<sup>49</sup> The amounts in Shanghai were much larger than those in Hankow and the loan-to-deposit ratio in Shanghai was also much larger than in Hankow. Inroads into Shanghai were very successful and the Hankow Bank established a Nanjing branch in 1938.

Although Japanese financial authorities had planned to merge Shanghai Bank and Hankow Bank for a long time, the plan was not fulfilled. By 1940 they gave up, and instead tried to force a merger with the BoT.<sup>50</sup> Although loans and investments after 1937 should be analyzed, it is impossible to do so because no data are available.

## (2) Jinan Bank

Because the Jinan Credit Association (formed in 1917)'s license expired in 1920, Jinan Bank was established by the association's shareholders together with other small merchants and industrialists to serve their financial needs, even though there were branches of YSB, the BoC, and Shoryu Bank in Jinan.<sup>51</sup> Its capital was ¥1 million and 20,000 shares were issued, of which 18,820 (94%) were held by local residents (all shareholders were Japanese) at the end of 1920. Taking deposits and making loans were executed mainly in (gold) yen, as a large amount of BoC notes circulated in Shandong province after the First World War.

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<sup>47</sup> Letter from Mamoru Shigemitsu, Consul to Kijuro Shidehara, MFA, 7 Nov. 1930. JCAHRRN,

<sup>48</sup> Letter from Itaro Ishii, Consul to Koya Uchida, MFA, 24 Oct. 1932. JCAHRRN, B08061403900.

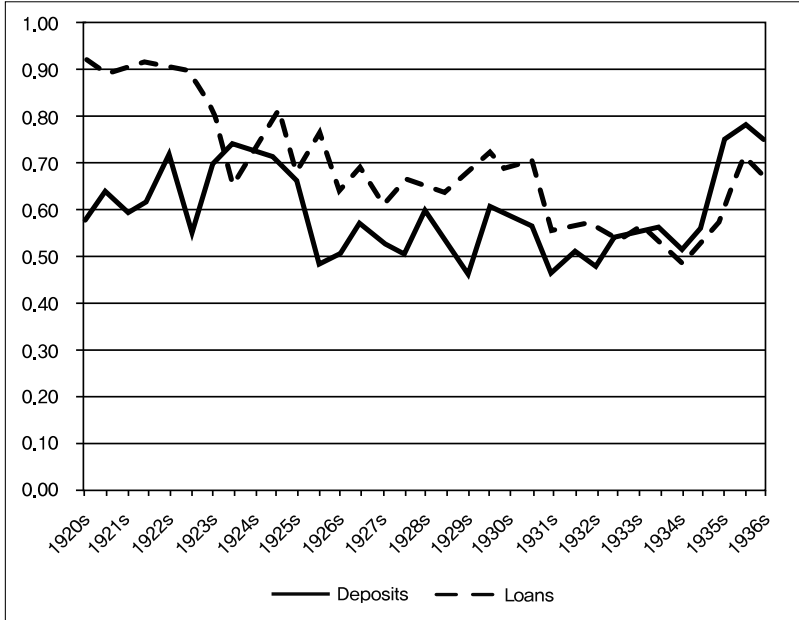
<sup>49</sup> Semi-annual report to shareholders, 2nd half of 1933. JCAHRRN, B08061404200.

<sup>50</sup> Letter from Goto, Consular Agent to Arita, MFA, 19 Dec. 1938; Letter from Horiuchi, Consul to Matsuoka, MFA, 2 Dec. 1940. JCAHRRN, B08061404400.

<sup>51</sup> Letter from Yasusaburo Mori, Consul to Koya Uchida, MFA, 9 Jul. 1920. JCAHRRN, B10074173100.

The bank's ratio of gold accounts declined gradually, however, as BoC notes were used less and less and the BoC closed its Jinan branch in 1925 (Figure 2).<sup>52</sup>

Figure 2. The Ratio of Gold Accounts in Jinan Bank



Note: 1920s means the end of the second half of 1920.

Source: Semi-annual report to shareholders, Jinan Bank, each period.

Although residents of Qingdao, who had been invited to join Jinan bank early on, did not invest in it, the bank opened a Qingdao branch in 1923 because it began to make loans on the securities of commodities held in warehouses in Qingdao soon after its foundation.<sup>53</sup> The amounts of deposits and loans in Jinan at the end of 1929 were ¥517,751 and

<sup>52</sup> YSB also withdrew from Jinan in 1931.

<sup>53</sup> Report on the establishment of Jinan Bank. JCAHRRN, B10074173400.

¥499,089 respectively, while those in Qingdao ¥265,949 and ¥259,438 respectively. The branch's business was half as large as the head office's.

The bank's deposits and loans increased steadily in the 1920s and 1930s. When the bank's first president died in 1932, however, it was revealed that the current value of securities taken from him was much lower than the outstanding amount of loans to him.<sup>54</sup> The new president sold stocks taken from him and kept real estate taken from him on the bank's books because real estate prices at the time was low. Bad loans to executives were a common cause of bank failure in interwar Japan and Jinan Bank was no exception. Fortunately, however, it could sell all the real estate taken from debtors in 1934.

After the outbreak of the Second Sino-Japanese War banknotes issued by the Joint Reserve Bank of China, which was formed by a puppet state of the Provisional Government of the Republic of China (Beijing), began to circulate and Jinan Bank unified its gold and silver accounts into yen accounts in 1938. Due to newly opened branches and inflation the bank's deposits skyrocketed in a year but it mainly deposited the money in other banks (although it is unknown exactly in which banks). Jinan Bank functioned as a money collecting institution to curb inflation, just like Shanghai Bank and other Japanese local banks.

#### IV. Conclusions

In addition to six large exchange banks many local small banks were established by the Japanese in cities where a large number of Japanese emigrated in places like Taiwan, Korea, Manchuria, Guannei, Hawaii, the US West Coast, and Brazil. These banks (with the exception of banks in Brazil) flourished during the economic boom around the First World War, while they faced consolidation and failures in the 1920s and thereafter.

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<sup>54</sup> Minutes of the shareholders' meeting on 25 Jan. 1933. JCAHRRN, B08061402900.

Local Japanese banks in Guannei were established by small merchants and industrialists who could not secure funds from government or *zaibatsu*-related exchange banks to satisfy their financial needs in the cities that had large numbers of Japanese residents. Their main customers were local Japanese. They were regulated by the Japanese authorities on almost the same level as ordinary banks in Japan proper. The China-Japan Bank and Qingdao Bank, however, did not meet these conditions. The former was established by an investment company in Changsha where there was a small number of Japanese people. Therefore, it lent a large portion of its money to the Chinese in a short period and accumulated bad debts. The latter was approved by an army commander, and the Ministry of Finance did not participate in the process. Many of these banks, except for the Bank of Tianjin and its predecessors, were established in the booming period in the second half of the 1910s. In the 1920s, however, they faced economic and political difficulties such as a long economic slump and anti-Japanese movements.

Because their customer base was initially very limited, it became necessary to broaden it in order to grow, but this proved difficult. First, if they planned to move into the upper markets, they had to transact with large trading houses, who were the main customers of exchange banks. Second, the financial authorities did not easily approve of allowing them to establish branches in cities where there were many Japanese residents, as in the case of the Shanghai branch of Hankow Bank. Third, if they planned to make loans to the Chinese, it was very difficult to evaluate Chinese customers' creditworthiness, as in the case of China-Japan Bank and the Bank of Tianjin. Even if they employed a comprador it was not an easy task. As a result, the ratio of money on deposit to the amount of deposits began to increase in the 1920s. This reflected the banks' cautious policy, which was different from that in Japan, where banks invested in bonds. Therefore, increasing numbers of Japanese residents were necessary for their growth, but this condition could not be met.

Although similar conditions appeared from the 1930s with Japan's military advancement, financial control was tightened and banks were either acquired by large government-related banks or forced to raise the ratio of money on deposit in order to curb inflation.

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