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THE BANK OF CHINA IS DEAD

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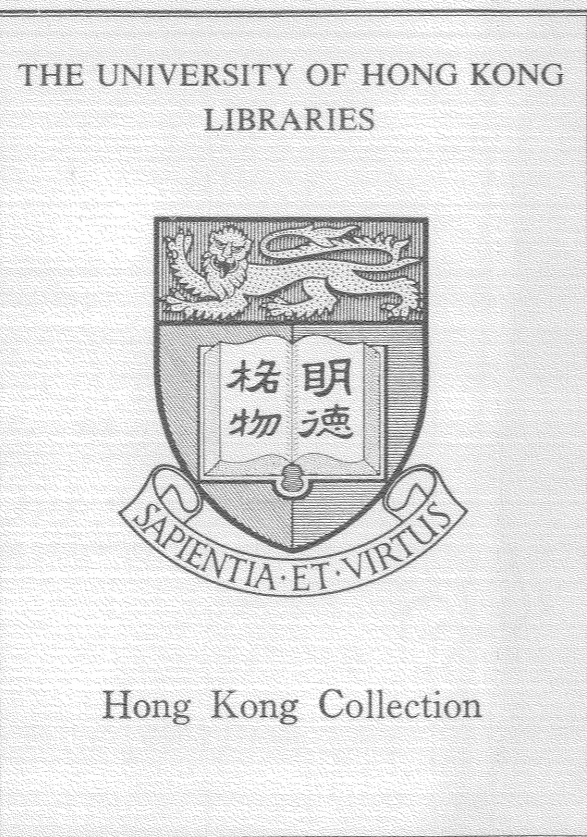
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THE BANK OF CHINA IS DEAD

FRANK H. H. KING\*

To censure them would show a 'lack of appreciation'.  
They are merely out of their sphere: that is all.

OSCAR WILDE, *De Profundis*

To most students of Asian banking history, the Bank of China, Ltd., founded in Bombay in 1864 and ignominiously wound-up in 1866, if known at all, seems something of a joke. The spirit of the affair is caught in the summing up of Sir Thomas Jackson, longtime chief manager of the Hongkong and Shanghai Banking Corporation:<sup>1</sup>

But the good people of Bombay, in addition to exploiting their own country, cast their eyes towards China and said, 'We are going to start a Bank of China with its head office in Hong Kong.' Well, the good people in Hong Kong did not like this prospect at all.

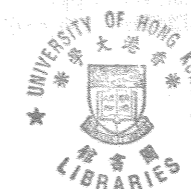
Indeed, most of us have the delightful picture of a P. & O. ship captain bringing the news from Bombay that a bank was to be started to work the China trade and that, for a select and lucky few in Hong Kong, there were a few shares allotted. Overnight the Hon. Thomas Sutherland, a shipping agent with no banking experience, drew up a prospectus for a rival Hong Kong based bank, promoted the matter at a dinner party, and rallied the normally unco-operative Hong Kong merchants to establish the Hongkong and Shanghai Bank before the luckless emissary of the Bombay bank, Neale Porter, could reach the Colony. With this the Bank of China disappears amid general merriment while the Hongkong Bank goes from strength to strength.<sup>2</sup> Another Bombay bubble had been burst.

Indeed, two factors support such an approach to the history of the Bank of China. First, the Hongkong and Shanghai Bank so quickly established its rôle in the China coast financial scene that there appears almost an element

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<sup>1</sup> Quoted in Maurice Collis, *Wayfoong: The Hongkong and Shanghai Banking Corporation* (London, 1965), p. 24.

<sup>2</sup> Quoted in *ibid.*, pp. 22-24.



of inevitability about its success. Opening for business in 1865 it was not properly chartered until late in 1867, and yet this tribute written shortly afterwards, appears altogether justified:<sup>3</sup>

Of all the local companies, the Hongkong and Shanghai Bank takes the lead. Projected at a critical period in the financial history of Shanghai, its career has been one of steady progress. . . . As a London contemporary observes in reference to it, 'There is nothing like this in banking history, in the same space of time. . . . Banking is a business undertaken for the service and convenience of the public, and not one undertaken as a favour to the mercantile community; and one of the results of recognizing this policy, is that the Hongkong Bank has attained to a position of remarkable and almost impregnable strength.'

This was written at a time when the Bank of China was still attempting to complete the process of winding-up without having undertaken a single banking transaction. Thus in retrospect opponents of the Hongkong Bank appear as so many Don Quixotes tilting against a windmill. And yet in the summer of 1864 the historically inevitable mission of the Hongkong Bank was far from apparent. In the mood of world-wide speculation and company promotion, with several of the Hongkong Bank's promoters notoriously over-extended, with the uncertainty of its purpose, and with the technical problems in obtaining a charter with limited liability, the Hongkong Bank might reasonably have appeared to a disinterested observer as a doubtful risk.

Secondly, the struggle of the Bank of China to become established and to beat its 'rival' in a race to secure an imperial charter was probably completely unknown to the promoters of the Hongkong Bank. While the proprietors of the Bank of China imagined themselves on the threshold of success, they had actually created so little impression with the British Treasury that the latter had not bothered to inform the Colonial Office of the negotiations. I can find no reference to the Bank of China in any official correspondence with Hong Kong, nor do I find any mention of the Bank in Hong Kong newspapers after 1864. Had Hong Kong's merchants been aware of the Bank of China's continued exertions, they would only have felt confirmed in their initial incredulous attitude to the actions of the Bombay promoters.

Certainly the Bank of China was something of a foil for both the wit and commercial acumen of Hong Kong's merchants. There is something so fantastic about a Bombay bank with headquarters in Hong Kong doing business with China that it is difficult to take the project seriously. And yet there is evidence that the Bank was not just another Bombay bubble company spawned by the cotton speculations; the promoters, judging from their prolonged attempt to obtain an imperial charter, were not totally without

<sup>3</sup> North-China Herald, *A Retrospect of Political and Commercial Affairs in China during the Five-Years 1868-1873* (Shanghai, n.d.), pp. 99-100. Also to be found in the annual summary, *North-China Herald* (January 1868).

principle or serious purpose but, as Oscar Wilde said of Rosencrantz and Guildenstern, they are merely out of their sphere: that is all.<sup>4</sup>

Thus an economic historian is concerned with the Bank of China first because it reflects the economic mood of Bombay at the time, secondly because it illustrates a stage in the history of British chartered banking development, thirdly because the Bank of China undoubtedly sparked the founding of the Hongkong and Shanghai Bank, and finally because, in its last year, the Bank of China helped bring down the potentially important Asiatic Banking Corporation and reflected the new situation in Bombay in the wake of local business failures and the Overend Gurney crisis in England.

This essay will touch, therefore, on several problems of complexity and general concern. Those familiar with the period will also notice that the essay makes tentative comments on the Indian government's position relative to banking institutions operating outside the jurisdiction of Indian banking legislation, suggesting that there were legitimate legal problems involving the financial interests of Indian residents and that the government's reluctance to sanction imperially-chartered institutions was soundly based. But our principal purpose is to give some substance to this fleeting corporate character not only when it plays foil to the Hongkong and Shanghai Bank but when it is, like the two characters from *Hamlet*, off-stage. Although the promoters of the Bank of China detected a genuine gap in China-coast banking facilities, they play throughout the rôles of the bewildered and confused. 'They are close to his secret and know nothing of it.' As with Rosencrantz and Guildenstern in the original drama, the Bank of China is of no account but to further or frustrate the projects of others; yet off-stage its life is independent and real enough though the events are more than the characters can comprehend. Only in the acceptance of death is there perhaps at last some decision and meaning. Although even here the agonies of winding up are prolonged—'a tragic ending . . . is really not for such as they'. At least there seemed sufficient a parallel to entitle this essay, after Tom Stoppard's success, 'The Bank of China is Dead'.<sup>5</sup>

The Bank of China was first announced in the *Times of India* (Bombay) on 23 July 1864, with a prospective capital of 60 lacs of rupees in 30,000 shares of Rs200 each, a head office in Hong Kong and branches in Shanghai and other ports of China. This is not an obvious thing to have organized and depends upon an unusual combination of factors peculiar to 1864 which must first be stated. It is essential to an understanding of such an international banking venture that one have knowledge of, first, the general banking insti-

<sup>4</sup> Oscar Wilde, *De Profundis* (unabridged edition, London, 1949), pp. 136-137.

<sup>5</sup> Tom Stoppard, *Rosencrantz and Guildenstern are Dead* (London, 1967).

tutional structure—(a) the imperial chartered banking system as it had developed to 1864, and as contrasted with the state of English (but not necessarily Scotch) banking law and Indian banking legislation, (b) the relation of the Indian government to the British Government in banking matters, and (c) the position of colonial, especially Hong Kong, legislation; secondly, the actual banking situation in Hong Kong at the time of the founding of the Bank of China, and thirdly the unique atmosphere of Bombay the summer of 1864 which alone could have permitted the launching of such an enterprise. But this atmosphere is not wholly unrelated to the wave of company promotion in England—and we thus return to the development of English company law. Each of these factors is worth a separate study; the purpose now is simply to state the elements of the situation as a background for a history of the Bank of China.

*Background—banking legislation.* There was no banking legislation in Hong Kong in 1864 and thus all were apparently free to establish banks. There was, however, a significant potential control. Promoters planning overseas banking operations generally considered the issue of banknotes as an important source of profit and prestige—they often acted as if this were an essential element of overseas banking, which it was not—but experience suggested that unless the local government accepted such notes in payment of taxes the note circulation would in fact be negligible. But colonial governments were empowered to accept only banknotes of banks chartered according to the colonial banking regulations; hence the continued importance of a charter from the imperial government, despite the development of general banking legislation which by 1858 had made limited liability banking *without* note issue possible in England.<sup>6</sup> The charters were awarded by the Queen on the advice of the Treasury in letters patent and usually designated the general area of operation, e.g., British territories and cities where a British consul was located, say, East of the Cape of Good Hope, but, after an 1865 agreement, excluding the right to establish branches or agencies in India.<sup>7</sup> (It is not clear whether 'East of the Cape' would include California.) The motives of the Indian government in securing this exclusion have been questioned, principally by Baster, but it is clear that the Indian government

<sup>6</sup> For the Colonial Banking Regulations, see Public Records Office (PRO), T. 1/6572B/15320. They are quoted in A. S. J. Baster, *Imperial Banks* (London, 1929), pp. 45–46. The rules for acceptance of the note issue were evolved over time and differed slightly from colony to colony. For the rules as stated to the Hongkong and Shanghai Banking Company, Ltd., see PRO T.1/6737A/18254; for Hong Kong in general, see, for example, T/7/13, 10 Dec. 1864, and there are many other possible sources. General limited liability was granted banking companies in England under specified conditions by 21 and 22 Vict. c.91.

<sup>7</sup> PRO, Chancery roll C-66/5018, 19 February 1864, contains the Asiatic Banking Corporation charter.

wished to maintain legislative control of banking establishments in India.<sup>8</sup> Furthermore, there had been no precedent of a bank being chartered by the imperial government with a head office outside the United Kingdom.<sup>9</sup> Thus, if the Bank of China wished to operate in Hong Kong and on the China coast under the protection of an imperial charter, with limited liability, and with an accepted note issue, the promoters would require a charter, but the position of the Indian government and the projected Hong Kong headquarters would cause difficulties.

*Background—the situation in Hong Kong.* There had been prior to 1864 a considerable increase in the value of the China trade, and the opening of the Yangtze and new ports to foreign trade had placed a strain on banking facilities. But there had been, if anything, an over-response. A list of banks, classified as to legal authority, is included in Table One (page 44); the figures in parenthesis indicate the number of English-speaking staff, i.e. senior staff and Portuguese clerks, probably employed in 1865. These figures, taken from the Hong Kong jury list, give some indication of relative importance in the Colony of each institution.

Before considering what the list means in terms of the Bank of China, some further explanation is required. In the summer of 1864 there were five well-established British banks in the Colony: the Chartered Mercantile, the Commercial Bank, the Oriental Bank, the Agra, and the Bank of Hindustan. The first four were empowered to issue notes, the Agra, after much controversy, being considered a 'chartered' bank for this purpose, but the Commercial although old established was newly chartered and did not actually issue notes in the Colony until 1866, the year in which it failed.<sup>10</sup> The Asiatic was in 1864 making preparations to establish a Hong Kong branch and did, through its connections with Charles A. Fearon, one of its London directors, secure his former firm, Augustine Heard and Co., as its agents. The Asiatic and the Chartered Bank of India, Australia and China were slow starters, but they swelled the potential banking facilities sufficiently to meet the immediate needs of the China trade. As can be seen from parts B and C of the table, many new institutions planned to compete in China-trade

<sup>8</sup> Baster, *Imperial Banks* and 'The Origins of the British Exchange Banks in China', *Economic History*, 3: 140–151 (January 1934). Baster is unfortunately too often inaccurate and the original sources must be checked. This tends to undermine his interpretation, e.g. of Indian government attitudes. See notes 51 and 60 below. It also means that historians using his dates and names are repeating his many errors; see, for example, my *Money and Monetary Policy in China, 1845–1895* (Cambridge, Mass., 1965), p. 99.

<sup>9</sup> There may have been a precedent with the Indian Peninsular, London, and China Bank (name changed from Imperial Bank of India and China). This needs further investigation. See PRO T. 1/6554B/8837.

<sup>10</sup> PRO CO 129/105, 11 May 1865; see Treasury dispatch of 22 January 1865.

TABLE 1. COMMERCIAL BANKING IN HONG KONG, 1864-65

## A. BANKS IN HONG KONG, 1864-1865

*Chartered:*

- Chartered Mercantile Bank of India, London and China (7)
- Chartered Bank of India, Australia and China (2)
- Oriental Bank Corporation (6)
- Commercial Bank Corporation of India and the East (3)
- Asiatic Banking Corporation (1)

*Acts of 1844-1862:*

- Agra and United Services Bank, Ltd — Agra and Masterman's (4)

*Act of 1862:*

- Bank of Hindustan, China, and Japan Ltd. (4)

*Indian Legislation (Act VII of 1860):*

- Bank of India (3)
- Central Bank of Western India (2)

*French Legislation:*

- Comptoir d'Escompte de Paris (2)

*Hong Kong Ordinance No. 1 of 1865:*

- Hongkong and Shanghai Banking Company, Ltd. (2)

## B. AGENCIES OF BANKS DOING EASTERN EXCHANGE BUSINESS IN HONG KONG

- Bombay Trading and Bankers Association Ltd. (Central Bank of Western India)
- Scinde, Punjab and Delhi Bank Corporation (Dent & Co.)
- Eastern Exchange Bank (Chartered Bank)
- Asiatic Banking Corporation (Augustine Heard & Co.)
- Bombay General Credit and Financial Corporation (Commercial Bank)

## C. BANKS PLANNING TO ESTABLISH IN HONG KONG AND/OR CHINA AND JAPAN

*From India*

- Bank of China, Ltd.
- Imperial Bank of India and China
- then Indian Peninsular, London and China Bank
- National Bank of India, Ltd.
- Royal Bank of India
- Alliance Bank of Bombay
- Bank of Baroda, Ltd.

*From London*

- Imperial Bank of China, Ltd.
- Imperial Bank of Japan, Ltd.
- Imperial Bank of China, India, and Japan
- British and Netherlands India Bank, Ltd.
- Eastern Exchange Bank (Liverpool)

financing, and although none were to make any actual impact in our period, they might have given yet another potential competitor pause for reflection.<sup>11</sup>

Yet there are three reasons why the promoters of the Bank of China would proceed. The first is but the usual optimism of the entrepreneur stimulated in this case by the speculative atmosphere in Bombay. The second is that the promoters were probably not aware of all the competition facing them. The third reason is more interesting. Banks can be of many kinds

<sup>11</sup> General sources found useful are Baster (if carefully checked), *Bankers Magazine, Journal of the Money Market and Commercial Digest* (London) vol. 24 for 1864, Sir Compton Mackenzie, *Realms of Silver: One Hundred Years of Banking in the East* (London: 1954), and, always important, the local press.

and serve different purposes, especially in the days before modern 'department-store' banking. The promoters of the Bank of China saw a gap in the banking spectrum: there was no locally based bank in Hong Kong with a primary business of inter-port trade finance, discounting, and lending on land and shares. Thus the Bank of China need not compete with the established 'exchange' banks whose primary interests were, of course, the foreign exchanges, and this different rôle would be consistent with the expectation that such lending would be necessary as permanent institutions and industry developed in the new treaty ports of China and in Hong Kong. The promoters did not know of the London based Imperial Bank of China, Ltd., founded earlier in 1864 under the direction of that old India bank promoter and sometime treasurer of Hong Kong, R. Montgomery Martin.<sup>12</sup> While his scheme would be of considerable interest in a history of Far Eastern banking, it is sufficient here to note that Martin was practically forced to wind up his bank in favour of the Imperial Bank of China, India, and Japan. This bank immediately turned to exchange operations and attempted a merger with the Bank of Hindustan, a merger which was successfully contested by Martin—although after many months, by which time both banks had failed.<sup>13</sup> We may conclude, therefore, that despite the plethora of banks and potential banks for Hong Kong, there was a place for a bank differently conceived. But again there were difficulties: such a bank depended on a Hong Kong management. Could this be secured by a Bombay-financed institution? Could it compete if Hong Kong merchants financed their own local bank?

*Background—the situation in Bombay.* If we turn now to Bombay we find that in the year from approximately May 1864 to May 1865 some 38 banks, 66 financial companies, and 10 land reclamation companies had been founded. These figures must not be considered a final count; they were obtained from a reading of the daily *Times of India* for the period and omit, for example, companies promoted and failing before either a name had been assigned or the names of the promoters revealed. The figures indicate, nevertheless, with sufficient accuracy the spirit of the times. The *Times of India* in disgust printed the following advertisement for a 'Share-Speculators' Home (unlimited)':

Capital: as much as can be got (with power to increase). This company is projected with a view to supply an acknowledged want in Bombay—namely, the erection and furnishing of

<sup>12</sup> For the Imperial Bank of China, Ltd., see PRO BT 31/793/492C; for the Imperial Bank of China, India and Japan, Ltd., see PRO BT 31/937/1205C; and for the Bank of Hindustan, China and Japan, Ltd., see PRO BT 31/654/2759.

<sup>13</sup> Most authorities state that the two banks merged, but the merger was ruled invalid *ab initio* by a decree in Chancery, 1868. For the legal record, which is important, see *Bank of Hindustan v. Alison* cited in *Mew's Digest of English Case Law*, 2nd ed. (London), I, 1362. Further references are given there.

a building for the accommodation of insane speculators in Bank and other shares . . . N.B. The Promoters reserve to themselves the right (according to the state of the premium) of keeping as many shares as they like for themselves; and of pocketing as many rupees as an enterprising and discriminating public may be disposed to part with.

This flurry of speculative activity reached its most notorious heights in the market for Bombay [Backbay] Reclamation Company shares and in the operations of Premchund Roychund. For the particular direction the speculation took, viz. financial company promotion, we have to look to the British parallel, where the Credit Mobilier of England, Ltd., and similar enterprises had become popular after the observation of French successes. And here, as already suggested, we turn to the permissive company legislation found in the British Companies Act of 1862, the full potentials of which were just being tested.

The Bank of China followed the general pattern in that it was established by a financial association at a time of speculative activity, and yet it should be noted that the Bank and its financial sponsor were among the earliest and possibly were more soundly conceived than the purely bubble companies which followed with almost unbelievable rapidity until the spring of 1865. Indeed, the Financial Association of India and China, which sponsored the Bank of China, came to be regarded as a rock of conservatism and was referred to as 'old financial'. Considering that its operational losses up to September 1865 exceeded its reserve fund, we may judge that 'conservative' was being used relatively.<sup>14</sup>

The Financial Association was promoted in May 1864, its purpose stated to be similar to the finance companies so successful in England and the Continent.<sup>15</sup> The prospectus pointed out that it was not in competition with the local banks, but would rather use its funds (Rs 1,20,00,000 subscribed) in channels not then provided for, including the conduct of and arrangement for bringing out public companies. In its first ordinary general meeting, April 1865, the Association announced it had been interested in forming the Bank of China, the Bombay Brick and Tile Company, the Bengal Credit Mobilier, and the Fort Canning Docks.<sup>16</sup> While this was not an impressive list and was conservative enough, the Association had also been involved in speculations with, among others, Premchund Roychund, and the Association was, moreover, based on the principal of lending relatively short-term funds for long-term projects—disastrous in a thin market or in periods of general loss of confidence—and it was inevitable that it would suffer the general fate of Bombay financial institutions, despite its early

<sup>14</sup> *Times of India* (Bombay) Overland supplement, 23 July 1866.

<sup>15</sup> *Ibid.*, 10 May 1864. See also, *Economist* (17 September 1864 and 13 May 1865), p. 1191 and p. 587 respectively.

<sup>16</sup> *Times of India*, 10 April 1865.

founding and well intentioned management.<sup>17</sup> But such, in any case, was the sponsor of the Bank of China.

*The founding of the Bank of China.* In the spectrum of financial organizations, the Bank of China was intended to undertake business between the long-term investments of a financial association and the purely inter-continental trade finance and exchange operations of the so-called exchange banks, e.g. the Asiatic. At least, this is consistent with the prospectus and with the fact that the original promoters of the Bank of China had a considerable investment in both the Financial Association of India and China and in the Asiatic Bank. Indeed, the parallel frequently drawn was with the operation of the Presidency banks, especially the Bank of Bombay with which at least some of the promoters—Robert Hannay, Walter R. Cassels, Rustomjee Jamssetjee Jejeebhoy—were prominently connected. A list of those promoting the Bank of China together with their other affiliations is found in Table 2.

TABLE 2. BANK OF CHINA: FIRST PROVISIONAL BOARD, MAY 1864

Michael H. Scott, promoter of the Asiatic Bank and the Bombay Reclamation Company
Walter R. Cassels, sometime director of the Bank of Bombay
Richard Willis (Forbes and Co.), director of Bank of India, chairman of the Financial Association of India and China
A. F. Wallace (Findlay, Clark and Co.), director of the Financial Association
Robert Hannay, promoter of the Asiatic Bank, chairman of the Bombay Reclamation Company, sometime president of the Bank of Bombay
Cowasjee Jehangher Readmoney, director of the Financial Association, Bank of Bombay, Bombay Reclamation Co., and Asiatic Banking Corporation.

As already noted, the Bank of China was announced in the *Times of India*, June 23, 1864, with a capital of 60 lacs of rupees (with power to increase to three crores), in 30,000 shares of Rs200 each. The prospectus continued:<sup>18</sup>

The Bank of China is projected to occupy in China a position similar to that which the banks of Bengal, Bombay and Madras hold in India. . . . The Promoters will apply to H.M. Government for a charter. The Bank will meantime be registered under the companies limited liability Act of 1862. The Promoters will memorialize the British Government in China to establish the same relations with the 'Bank of China' as exist between the Indian government and the three Presidency banks.

By August the promoters had given up any idea of operating under the Act of 1862, a decision which was to have a mixed impact on the company. On the one hand the Bank could hardly have achieved its purpose as a limited

<sup>17</sup> *Ibid.*, 2 January 1867, 13 March 1867, and 4 January 1867.

<sup>18</sup> *Ibid.*, 23 June 1864. See also, *London and China Express*, 26 July 1864.

liability company without an imperial charter—the Presidency banks here not being an ideal parallel since they were neither chartered by the Crown nor under the Act of 1862 but specifically chartered by Indian legislation for their own purposes. On the other hand the delays inherent in obtaining a charter, even if the application were efficiently undertaken—as the Bank of China's was not—would mean delaying the commencement of business.<sup>19</sup> This alone would give a fatal headstart to any rival who selected a course which minimized such legal formalities.

The decision which was to give the Bank the most trouble, however, was its failure to reserve sufficient shares for allotment in China. The June announcement indicated that of the 30,000 shares only 5,000 were so reserved and noted that another 1,000 were to be taken up by the Financial Association of India and China.<sup>20</sup> The full significance of this will be grasped when it is recorded that Bank of China shares had risen to a premium of 85% before allotment.<sup>21</sup> Sound bank promotion decreed that shares should be allocated to prospective constituents or customers, thus tying the success of the Bank to patronage by shareholders—at least in part. Of course, prospective customers could be allocated reserved shares at a later date or shares could be bought on the market—but this was unlikely or impractical if they were at so high a premium. The promoters of the Bank of China practically insured an adverse Hong Kong reaction by the small proportion of shares allocated there, thus revealing the fact that, whatever the ultimate intentions of the promoters, quick financial return through share speculation figured too largely in their thoughts. This is not to conclude that such speculation was the sole purpose of the Bank of China's promoters. Rather, this unfortunate decision is but one in a series of steps which might almost have been designed to insure the failure of the Bank. Yet the Bank cannot be dismissed as a bubble.

In August the capital of the Bank was raised from 60 to 80 lacs in 40,000 shares of Rs200 each, of which only Rs25 was to be called up for the present.<sup>22</sup> The calling up of so small a proportion of subscribed capital, although obviously sound in this instance, was one of the catalysts of speculation and insured a major crisis would ensue any change in confidence. The shares were allotted on August 9th and a bank director, Richard Willis, left for London with the announced intention of obtaining a charter—he was actually returning on normal leave and did not push the charter applica-

<sup>19</sup> *Times of India*, 3 August 1864.

<sup>20</sup> *Ibid.*, 23 June 1864. For the Hong Kong reaction, see Sutherland quoted in Collis, pp. 22–23.

<sup>21</sup> *The Times*, quoted in the *Times of India*, 15 September 1864. The *Times* apparently saw the Bank of China as a purely bubble company.

<sup>22</sup> *Times of India*, 3 August 1864.

tion immediately.<sup>23</sup> The provisional chairman then wrote to merchants in Hong Kong and sat back to await the success of these initial negotiations, depending heavily on the co-operation of Dent and Company. Before the end of August he was soundly disabused.

*Reaction in Hong Kong.* The violence, immediacy, and success of the Hong Kong reaction in a sense proved the soundness of the Bank of China's premise, viz., that there was room in Hong Kong for a local bank not primarily concerned with purely China-India-Europe trade finance and exchange operations. But this was to be small comfort to the Bank of China's directors when word was returned that 'instead of cordially assisting in the undertaking, several of the China houses joined in projecting a rival institution having purely similar objects in view . . .'.<sup>24</sup>

The hard-hitting editor of Hong Kong's *Daily Press*, Y. J. Murrow, wrote bitingly of the inability of Hong Kong's merchants to co-operate on a local banking project which had been discussed for months.<sup>25</sup>

Thus it came to pass that a few enterprising Parsees and Scotchmen in Bombay invented and achieved so many banks in China. They had little money, but they had eyes in their heads and sense too. They saw a clear field before them with a lot of swell donkeys browsing on it, and they turned it to pretty good account.

But this time Hong Kong merchants reacted, possibly because the initial stimulus came from a man well respected but not fully one of them in the competitive sense, i.e. the local agent of the Peninsular and Oriental Steam Navigation Company, the Hon. Thomas Sutherland. (He was a member of the Legislative Council of the Colony.) Sutherland's own account of his reactions given some 50 years later in an after-dinner speech is naturally somewhat inaccurate, including such discrepancies as conversations with a ship captain who was actually on the high seas at the time. Nor is this the place to dissect his knowledge of banking, the contents of the *Blackwood Magazine* articles which he had read (they contain nothing which could have been useful in this instance), or his concept of Scotch banking—which was inaccurate.<sup>26</sup> Rather we should mark the essential similarity of his draft

<sup>23</sup> *Ibid.*, 3 and 20 August, 1864.

<sup>24</sup> *Ibid.*, 8 September 1864.

<sup>25</sup> *Hongkong Daily Press*, 28 July 1864.

<sup>26</sup> The accuracy of Sutherland's account must be challenged on the grounds that he recalls Captain C. H. Eastley of the *Ottawa* as bringing him the news of the Bank of China's formation. But Eastley's movements can be traced and it is not possible that he was the captain involved. Sutherland may be remembering that Eastley of the *Emeu* brought Neale Porter to Hong Kong later. This confusion casts doubt on how Sutherland came first to hear of the Bombay bank. Moreover, the *Ottawa* does not touch Hong Kong during the relevant period. News of the Bank probably arrived July 22 on the *Singapore*, a P. & O. steamer. Eastley brought in the *Emeu* from Bombay on August 5, two days after the first meeting of the provisional committee of the Hongkong Bank; he put in again from Bombay with Porter on October 26. There is



prospectus with that of the Bank of China and remark on his excellent sense of timing.<sup>27</sup> Indeed, he operated so swiftly that the announcement of the Bank of China and the projected Hongkong and Shanghai Bank appeared simultaneously in the local press.

Briefly, Sutherland received information of the Bank of China—before the mail was delivered—from the P. & O. ship captain (*not* Eastley); he then drafted a prospectus of a rival institution, possibly with the co-operation of E. H. Pollard, a lawyer with some experience of company promotion, called on leading merchants and secured their provisional approval. This may have been done partly at a dinner party, giving rise to the legend that the Hongkong Bank was founded as the result of an after-dinner conversation.<sup>28</sup> Certainly the speed took some of the sponsors by surprise, and A. F. Heard wrote that he was surprised to find 'next morning'—the morning after a 'preliminary' approach by Sutherland—his name included on the local bank's provisional committee—he *said* he thought he had given but a general indication of interest. But once the provisional committee was announced, its members stood by the projected Bank and worked hard and steadily on its organization and establishment. By the beginning of 1865 the Bank had a Chief Manager, it opened its doors for general business in March. This schedule can be contrasted with the history of the Bank of China as unfolded below.

Thus the provisional committee of the Hongkong Bank was practically at work before they could have digested the contents of their letters from Bombay and the invitation to subscribe the remaining 5,000 shares of the Bank of China! Sutherland had wisely turned over the development of the Bank to the Hon. F. Chomley, senior partner in China of Messrs Dent & Co. on whom the promoters of the Bank of China had apparently depended, and, who eventually became first chairman of the Court of Directors.<sup>29</sup> The Hongkong Bank's prospectus read in part:<sup>30</sup>

no one on the passenger list from Bombay on the August 5th arrival who could have been an emissary of the Bank of China. The July 22 date gives a reasonable time for Hong Kong to react and for the announcements to be published for both banks on July 28. See the shipping news on the relevant dates in the *Overland China Mail* and the *Hongkong Daily Press*. For Sutherland's version, see *Bankers Magazine* (1913), p. 734 and Collis.

<sup>27</sup> *China Mail*, 28 July 1864. A slightly inaccurate but usable version is reprinted in Appendix A of Collis, pp. 255–256.

<sup>28</sup> The source for the after-dinner version of the founding is, presumably, Sutherland. This story was recited as fact to the author by the late Sir Arthur Morse, one of the Hongkong Bank's greatest chief managers, who heard the fiftieth anniversary speech given by Sutherland. However Baster in his *International Banks* (London, 1935), pp. 165–166, cites the *Bankers Magazine* article of 1913, p. 734, where I can find no such reference.

<sup>29</sup> See the report of the Bank of China meeting in the *Times of India*, 8 September 1864.

<sup>30</sup> See note 27.

The banks now in China being only branches of corporations whose headquarters are in England or India, and which were formed chiefly with the view of carrying on exchange operations between those countries and China, are scarcely in a position to deal satisfactorily with the local trade which has become so much more extensive and varied than in former years.

This deficiency the Hongkong and Shanghai Banking Company will supply, and will in fact assume the same position with relation to this Colony as the Presidency banks in India or the Banks of Australia in their respective localities.

The prospectus stressed the importance of local management and pointed to the success of recently founded local associations. Sutherland had correctly appraised the temper of the mercantile community. The Heards, the American promoters of the Hongkong and Shanghai Bank, remained cautious about the extent of their financial involvement in the new institution, but they worked hard to make it an initial success and their reaction to the Bank of China is perhaps typical:<sup>31</sup>

You may or may not have seen in the Bombay papers the prospectus of the Bank of China intended to have its Headquarters here, do all our China business, be a government bank etc. etc. This announcement was received here by last mail and has created a good deal of feeling as it was thought to be rather cheeky and an attempt to profit from an idea which has frequently been talked up here for discussion and as often dropped for want of someone to push it, viz. the establishment of a local Bank under Colonial charter and limited liability to act more as a loaning and discounting institution than as an operator in exchanges.

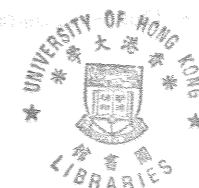
The fact that the Hongkong Bank secured as its first chief manager an exchange banker and operated in the exchanges from its opening is irrelevant to this history.

James Whittall, senior partner in China for Messrs Jardine, Matheson and Company, was a noted exception to the general acceptance of the local Hongkong Bank, and he played an unwitting part on bolstering the false hopes of the Bank of China promoters. (Russell and Co., another American firm also kept out, but for reasons not relevant to this study.) The generally accepted reason for Whittall's 'pooh-poohing' of the Hongkong Bank, as Heard put it, was his pique at being solicited after Francis Chomley of Dent's, or sometimes more charitably, it was just the natural reluctance of the two princely hongts to work together.<sup>32</sup> Since Dent and Jardine representatives are to be found involved together in other Hong Kong ventures and since Whittall was an acute business man, we may reasonably seek a more substantial reason.

Jardine's Bombay correspondent was F. F. Lidderdale of Remington and Company, and it was from this source that Whittall learned directly of the Bank of China project. Lidderdale himself was not one of the Bank's promoters, but as a shareholder he was interested—though cautious—and

<sup>31</sup> Heard Collection, Baker Library, Harvard University, A. F. Heard to John Heard III, HL-40, 29 July 1864.

<sup>32</sup> *Ibid.*



wrote that he 'did not see at present how it is to be worked nor do I know whether you require additional banking accommodation'.<sup>33</sup> Whittall's reply is missing, but from the next response, Lidderdale to Whittall, we may infer that Whittall had been cautious about the success of *either* bank. His letter brought the following response from Bombay:<sup>34</sup>

I have to thank you for your information as to Banks in China and of the one lately started in Hong Kong (the Hongkong and Shanghai Banking Co., Ltd). I was rather in hopes you would take an interest in the Bank started here. We are shareholders to a small extent although we had nothing to do with its organization. As the shareholders have determined to carry it on and apply for a charter, would it suit you to take an interest in it, and so keep our rival, which you do not appear to look upon favorably, from getting any standing?

It is significant that Jardines did not subscribe. Nor did the Bank of China's emissary to Hong Kong receive any comfort from Jardines later in 1864—but that story is told below.

The full account of Whittall's response to the Hongkong Bank belongs in a history of that bank, not in a history of the Bank of China. Sufficient to say here that Whittall was already aware that Dents were involved in unsound transactions, that several of the founding companies were over-extended, that speculative company promotion could endanger the Hong Kong business community. Whittall's reaction to the 1865 Hong Kong Companies Ordinance, which temporarily permitted the Hongkong Bank to register locally with limited liability in the fashion of the imperial Companies Act of 1862 rather than through the Colonial regulations required for a charter, fully supports the contention that Jardine's objection to the Hongkong Bank was more than personal.<sup>35</sup> Whittall's relations with the Bank of China are significant in leading to this conclusion.

*Countermoves by Bombay.* The promoters of the Bank of China were shocked to learn that Dents and other Hong Kong merchants, far from supporting their project, had undertaken to establish a local bank. On 24 August 1864, the *Times of India* announced that a meeting of the Bank of China proprietors was to be held on September 7 to consider what course of action to take 'in consequence of the unforeseen formation of a rival bank in China'.<sup>36</sup> By the date of the meeting, however, the promoters had taken steps which practically insured a decision to continue.<sup>37</sup>

<sup>33</sup> Jardine Matheson archives, Cambridge University Library, Bombay, private, B/4/2, 13 July 1864, p. 181. This letter would have arrived in mid-August.

<sup>34</sup> *Ibid.*, 12 September 1864, p. 187.

<sup>35</sup> The debates on the Hong Kong Companies Ordinance, sometimes referred to as the 'Limited Liabilities' ordinance, are to be found in the relevant issues of the Hong Kong Hansard, PRO CO 131 and the local press. These latter especially comment fully on Whittall's position.

<sup>36</sup> *Times of India*, 24 August 1864.

<sup>37</sup> *Ibid.*, 8 September 1864. This is a general report of the meeting and contains Lidderdale's

... the promoters of this Bank lost no further time; and Messrs Fairchild and Newman [London solicitors who had handled the Asiatic charter] have by the last mail been requested to act. . . . At the same time, Mr. Willis (now in London) was written to, to proceed vigorously in the matter of the Charter.

Willis should, of course, have already been involved in obtaining the charter. The chairman of the September meeting, Walter R. Cassels, continued by stating the promoters had written friends in England and intended to send an agent to Hong Kong with full powers to make the necessary arrangements for carrying out the undertaking. The promoters saw no reason to be discouraged.

Supporting the management at the meeting was F. F. Lidderdale who urged continuance of the Bank by citing news received from correspondents, i.e. James Whittall of Jardines, that the Hongkong Bank had met with little favor and was looked upon as got up merely for speculative purposes. 'We have', he concluded, 'at least as much chance of success as they.' That the the proprietors, many of whom had bought their shares at a high premium, should wish to continue is understandable, and it is noteworthy that the promoters—who received their shares at par—did not desert the proprietary. But it is characteristic of the Bank of China's history that a note of unreality should again be injected: the hopes of the proprietary were bolstered throughout by accounts of the difficulties of the Hong Kong bank and, later, by reports of their own near success in obtaining an imperial charter. They did not ask the nature of the Hongkong Bank's difficulties, which although real enough were never significant, nor did they question the point of a charter to operate in a Colony without customers. Whittall's reasoned analysis had been bearish on both banks but it was used to continue false hopes.<sup>38</sup>

The Bank of China was alone in its struggle. The London reaction was characterized by outright criticism in the press and with apathy and delay in the Treasury. As the *London and China Express* editorialized,<sup>39</sup>

Why shouldn't local merchants profit through dividends from the business they give the local bank? . . . The Bombay people are petulant.

But the real test should have been the reception in Hong Kong of the Bank's agent.

In consequence of the decisions taken at the September meeting of the Bank of China, Neale Porter was sent to Hong Kong with 'full powers'. Porter, who was the author of books on Indian questions, had come to Bombay in 1863 as managing director in India of the Scinde, Punjaub and Delhi

contribution cited below. For other unrealistic appraisals of the situation in Hong Kong, see for example, *ibid.*, 25 January 1865.

<sup>38</sup> The content of Whittall's letters from Hong Kong are inferred from the replies of Lidderdale to Whittall of 12 September and 28 October 1864, in B/4/2 Jardine archives.

<sup>39</sup> *London and China Express*, 10 December 1864, p. 996.

Bank Corporation, one of whose directors in London was William Dent, Jr. (formerly with the China firm), and whose Hong Kong agents were Messrs Dent and Company.<sup>40</sup> The choice of Porter implies that the Bank of China still had hopes of co-operation with Dents, if only to seek a merger with the Hongkong Bank should all else fail.

Nevertheless, Porter also went with a letter from Remington and Company to Jardines.<sup>41</sup> Purely formal in content, it represented a continuing hope on the part of Lidderdale that Whittall could be interested and thus break the front presented by the almost unanimous support of the Hongkong Bank. Yet Lidderdale himself supplied Whittall in private correspondence with conflicting thoughts. On the one hand he recorded that Bank of China shares had again reached a high premium—71% in mid-October—on the other he admitted that speculation was involved and that 'there seems to be no possible chance of business being done for months to come'.<sup>42</sup>

When Porter arrived in Hong Kong on 26 October 1864 (on the P. & O. ship *Emeu*, Captain Eastley commanding), he found the progress of the local bank too advanced to be checked.<sup>43</sup> Whittall, who had avoided participation in the Hongkong Bank, confirmed that he had no liking for the Bombay enterprise either. Thomas Sutherland was later to recall,<sup>44</sup>

[Porter] could not get anybody to take a single share in his capital; he could not discover a possible director anywhere, and I need hardly tell you that within an incredibly short space of time the Royal Bank of China was wound up in Bombay with somewhat unfortunate if not ignominious results.

Sutherland remembered what happened in Hong Kong; he merely surmised what logically should have followed in Bombay. He forgot two factors, however. Many of the Bank of China proprietors had had to purchase their shares at a premium, the market had now fallen, and hopes for saving their financial investment depended on the actual success of the company—or a rebirth of the speculative mood! Neale Porter had learned that the Hongkong Bank had not as yet even requested an imperial charter. Perhaps it was still not too late.

There was one last attempt to deal directly with Hong Kong. Porter must have returned to Bombay early in November with this pessimistic report; this was followed by rumours in Bombay that the Bank of China was either closing or planning to merge with the Hongkong Bank.<sup>45</sup> The latter

<sup>40</sup> See, for example, Neale Porter, *The Army of India Question* (London, 1860). For his appointment to the Scinde Bank, see *Bankers Magazine*, 23: 279 (1863).

<sup>41</sup> Jardine archives, Bombay to Hong Kong, non-private, B1/55, 28 September 1864.

<sup>42</sup> Jardine archives, B/4/2, 28 October 1864.

<sup>43</sup> See note 26 above.

<sup>44</sup> Quoted in Collis, p. 24.

<sup>45</sup> *Times of India*, 16 December 1864.

was not improbable. There had been a pattern of mergers among bubble banking companies giving obvious financial advantages to both parties. An offer was certainly made by the Bank of China, but the now confident provisional committee of the Hongkong Bank as reported by A. F. Heard, December 24, 1864, rejected it, probably at the same meeting in which they decided to make a formal approach to the Colonial Secretary of Hong Kong for a charter.<sup>46</sup> This was the Bank of China's last contact with its rival; from then on they looked to London.

*The 'battle' for the charters.* In January 1865 the *Times of India* in an inspired editorial struck a characteristically optimistic note. It stated first that the Hongkong Bank was having difficulty obtaining a charter because the Hong Kong government was reluctant to grant one; secondly, that the Hongkong Bank would therefore 'have to fight the battle of the charters in London where they will find our Bank's request well in advance of theirs'.<sup>47</sup> The editorial added that the Bank of China should call another board meeting and commence business without delay—the *Times* did not suggest with whom. That the *Times* misunderstood the charter situation in Hong Kong is understandable; indeed, the subject is sufficiently complex to require an explanation longer than practical in this essay. But their main error was in assuming that 'our Bank's request' was indeed well in advance of that of the Hongkong Bank! The facts were surprisingly otherwise.

The Hongkong Bank's provisional chairman, Francis Chomley, wrote the Hong Kong Colonial Secretary for a Colonial banking charter—in the form of a Hong Kong Government ordinance—on 23 December 1864;<sup>48</sup> the Colonial Office passed the Hong Kong Governor's covering letter to the Lords of the Treasury, 1 March 1865. The Bank of China instructed its director Richard Willis to press the charter before the September 1864 meeting, but a rough draft was not submitted to the Board of Trade until February 1865 and a corrected draft was first received by the Treasury on March 11, ten days after the proposal of the Hongkong Bank.<sup>49</sup> Since the Bank of China's solicitors had just finished handling the successful Asiatic Banking Corporation's charter application and since the new charter was modelled directly after it, there is no obvious explanation of the delay.

<sup>46</sup> Heard collection, HL-25, A. F. Heard to George B. Dixwell, 24 December 1864.

<sup>47</sup> *Times of India*, 25 January 1865.

<sup>48</sup> PRO CO 129/101, Francis Chomley to Mercer (Colonial Secretary, Hong Kong), included in No. 199 of Governor to Secretary of State, 29 December 1864.

<sup>49</sup> PRO T. 1/6651A/18092 for letter of solicitors to Treasury, dated 15 October 1866. This letter gives the original February 1865 date for the submission of the rough draft. The Bank of China charter is found in PRO T. 1/6545A/4242/65.

Although the Hongkong Bank's application was approved in principle by April 19, correspondence over the final content continued through 1866. The Hongkong Bank, however, was not fatally affected by these delays because they had registered with limited liability under the Hongkong Companies Ordinance of 1865. Although the banking section of this ordinance was later disallowed and the Hongkong Bank had to deregister and await a specific ordinance of incorporation including all the usual provisions of an imperial charter (also modelled after the charter of the Asiatic), it continued in business unimpaired. The British Treasury was throughout dealing with a going concern and this weighed heavily and favorably in all its considerations.

In contrast the Bank of China was but one of many interests of her promoters and as the Bombay financial crisis developed from April 1865, their primary concern was obviously elsewhere. The charter appears to have been pressed in March 1865 and then dropped until February 1866. There was another period of inactivity until October of the same year, when the project was, for all practical purposes, dropped.<sup>50</sup> The draft charter was handled as usual by George Arbuthnot, a civil servant with a background in economics and considerable experience in chartering overseas banks. Unfortunately for the Bank of China he died in mid-1865 after drafting several comments, and the failure of the promoters to continue pressure on the Treasury resulted simply in some ten months of inactivity—typical of the way the Bank of China would conduct a 'battle'. And, since the Bank of China did not (could not practically) follow the *Times of India's* advice and, like the Hongkong Bank, commence business, the delays were fatal. The Bombay scene changed so completely between 1864 and 1866 that the second attempt to push the charter, February 1866, was on a new and apparently *ad hoc* basis.

The Bank of China draft charter as submitted in March 1865 contained the standard provisions under the Colonial regulations, including double liability and the right to issue notes to the amount of paid-up capital and a one-third specie reserve. The area of operation was designated as East of the Cape of Good Hope including (a) without further Treasury consent the right to establish branches outside British territories and possessions where a British consul or vice-consul was located, and (b) with Treasury consent, to establish branches in India and the colonial territories except agencies only in Australia and New Zealand. The significant difference between a branch and an agency rests in the right of note issue which the former alone possesses. Basic to the charter was, however, the provision for

<sup>50</sup> The Bank of China correspondence with the Treasury together with minutes is found in the two files cited, viz. PRO T. 1/6545A/4242/65 and T. 1/6651A/18092, and also in T. 11/6545A/4449.

the Bank of China to be under the management of a Court of Directors *in the Colony of Hong Kong*.

The March draft was an improvement over the rough February submission which, among other anomalies, had referred to 'Hong Kong in the Empire of China'. The revisions had, for example, taken note that agencies but not branches might be established in Australia and New Zealand, and there were several technical improvements. But Arbuthnot still had objections. First, there were no names of promoters in the charter; secondly, the charter called for operations in India, and this was contrary to a new agreement the Treasury had reached with the Government of India following the granting of the Asiatic's charter (which had only called for agencies);<sup>51</sup> thirdly, there was no Board of Directors in London although the Bank was to be chartered under authority of the Crown.

The promoters had quickly settled the first objection by submitting the names of Willis and William Ackland, a Bombay solicitor then in London and a director of the Financial Association of India and China. Willis wrote to assure the Treasury that all shares offered for allotment in Bombay had been taken and that 'the Bank only awaits its charter of incorporation to commence business'.<sup>52</sup> But when the charter was taken up again in February 1866, the promoters still faced the second and third objections. The Bank of China promoters did nothing about the Treasury objections concerning Indian operations without Indian Government approval and eventually used this problem as an excuse for withdrawing their application for a charter.

As to the third objection, the Hongkong Bank had surmounted the problem of the London directorate by seeking their charter in the form of a Hong Kong ordinance, a point especially important in the registering of share transfers. In February, however the Bank of China's representatives made a startling revision: the application had been mismanaged; they wanted, they claimed, a bank of discount in China having branches in Japan and neighbouring countries managed by a Board of Directors in China—by which they may have included Hong Kong—but subservient to the Board of the Head Office in England.<sup>53</sup> This was a major revision; it had not been sub-

<sup>51</sup> The understanding between the Secretary of State for India and the Treasury is in a letter from the former to G. A. Hamilton dated 25 May 1865 in PRO T. 1/6584A/17735. Note the agreement, made after submission of the Bank of China charter, states in part, '... in future, Joint Stock Companies will not be empowered to establish Agencies or Branches in Territories under the Government of India, until they shall have conformed to the laws passed by that Government. . . .'

<sup>52</sup> Letter from Willis and Acland to the Rt. Hon. F. Peel, M.P. dated 14 March 1865 in PRO T. 1/6545A/4449.

<sup>53</sup> *Ibid.*, correspondence with Milner Gibson, M.P. as parliamentary contact from A. D. Robertson for the promoters of the Bank of China.

mitted to the proprietary, and it would have placed the Bank at considerable disadvantage *vis-à-vis* the Hongkong Bank with its purely local connections and Hong Kong direction and management. But it was clear that the 'battle' of the charters had been lost, and that the London representatives of China were merely seeking a path for survival in any form; they were extemporizing.

'*The Bank of China is dead.*' At a meeting called by the Bank of China promoters, October 4, 1866, Henry Coke of Messrs David Sassoons and Company felt it necessary to address the proprietors in the following terms:<sup>54</sup>

I dare say a good many persons are not acquainted with the object for which [the Bank] was entered into. It was not that we might be enabled to open a bank in India, but in China with chief office in Hong Kong. . . .

Perhaps, if the owners of the Bank did not know what it was for, the time had come to wind up. But there was question whether the promoters had the legal right to take such a step. The provisional agreement stated that the promoters were to seek a charter, and this could be interpreted to require that they continue until the Treasury returned a definite answer; this had not yet been done. Nor was it clear as to who were eligible to participate in the meeting, since original allottees had sold shares and the rights of the purchasers to participate before the actual formation of the Bank and their contingent recognition as shareholders was uncertain. Thus at the final meeting of the Bank of China we have the proprietors in dispute as to their rights, ignorant of the original purpose of the Bank, and uncertain of how to effect the course the majority wished to take, viz. the company's speedy winding-up and the return of the Rs25 per share deposits. All this was without mention of the further complication that the promoters were now seeking a charter calling for a board of directors in London; that issue was conveniently forgotten.

The October meeting reflected the general course of the Bombay financial crisis but it was precipitated by the closing of the Bombay branch of the Asiatic Bank Corporation on September 28—the Bank itself was to stop payment in London on October 5. Until September the financial status of the Bank of China had been sound (see Table 3); the capital was intact and expenses, mainly the Rs27,000 for Neale Porter's Hong Kong expedition, were more than covered by interest on fixed deposits with the Financial Association of India and China and the Asiatic Bank. The promoters were, of course, intimately involved in both these institutions. Despite certain confusion as to who actually were the promoters—involving the question

<sup>54</sup> Coke's speech is part of a full report in the *Time of India*, 6 October 1866. The material on the meeting in this essay is taken from this report. As Coke sent the relevant issue of the *Times of India* with his letter to the Board of Trade, it is included in PRO T. 11/6651A/18092. Sassoons were already connected with the Hongkong Bank.

TABLE 3. BANK OF CHINA: BALANCE SHEET AT 3 OCTOBER 1866

<i>Dr.</i>			
To Calls at Rs. 25 per share on 33,188 shares . . . . .			Rs. 8,29,700 0 0
Interest realized on Current Account . . . . .	Rs. 1,254 10 5		
Interest realized on Deposit Account, Financial Association of India & China . . . . .	60,304 7 8		
Interest realized on Deposit Account, Asiatic Banking Corporation . . . . .	45,639 15 5		
Due do. . . . .	15,855 5 8	1,23,054 7 2	
			Rs. 9,52,754 7 2
<i>Cr.</i>			
By Government Paper 5½ per cent . . . . .			Rs. 3,81,286 6 2
Bank of Bombay Current Deposit . . . . .			85,000 0 0
Financial Association of India & China Current Deposit . . . . .			3,957 5 3
Asiatic Bank Deposit Receipt overdue . . . . .	4,28,364 15 5		
Interest accrued thereon . . . . .	15,855 5 8	4,44,220 5 1	
Expenses—			
Mr. Neal Proter's visit to China . . . . .	27,312 0 0		
Salaries of temporary clerks . . . . .	227 0 0		
Law charges paid on account in Bombay . . . . .	5,000 0 0		
Expenses in London in connection with application for a Charter, to account . . . . .	5,112 2 2		
Advertising . . . . .	141 15 6		
Stationery and Printing . . . . .	258 0 0		
Stamps . . . . .	95 4 0		
Sundry incidental expenses . . . . .	143 8 0		
			38,290 6 8
			Rs. 9,52,754 7 2

Source: *Times of India*, 6 October 1866

as to whether promoters could resign; they could not—the chairman admitted that with the approval of majority of the promoters the funds of the Bank had been deposited in the Asiatic without adequate security and that the Asiatic had been unable to repay on the due date, 21 September 1866. The promoters considered renewal with security but this the Asiatic could not provide, and its request for a renewal was then denied by the promoters. The Asiatic already weakened was forced to suspend payment, an action which, as noted, forced the subsequent closing of the head office in London.<sup>55</sup> The Bank of China had brought down the Asiatic Banking Corporation, perhaps its only visible financial impact in some two years of preliminary existence.

But the main achievement of the meeting was to force the promoters to take steps to effect the winding up of the Bank of China. Noting that the

<sup>55</sup> *Times of India*, 13 October 1866, and *Bankers Magazine* (1866), XXVI, 1330–1331.

meeting had originally been called anonymously, a then common device of disgruntled shareholders, the chairman stated that there was disagreement among the promoters as to how next to proceed. This suggests that some at least still hoped to obtain a charter for operation as a London based bank, despite bitter experience with similar India-originated institutions. The majority were, however, for ending the company. Why the change since September 1864?

If the Bank of China had received its charter and the promoters proceeded to business, original allottees would have been faced with the decision of paying up the balance of their shares, Rs175, or of forfeiting. If they had sold their rights at a premium, the forfeiture would have made little difference, but then the deposit receipt holders would have been liable. In September 1864 such a prospect was in no way upsetting; the Bank was expected to be a success in accord with the optimism of the time, or the shares could have been sold at a premium consistent with the speculative market of the time. In October 1866 Bombay merchants were contemplating a series of failures and tightening of credit the causes of which lay in both India and London. There was no feeling of optimism, and the prospect of paying Rs175 additional per share with funds difficult if not impossible to obtain was not pleasant. The alternative of forfeiting shares bought at a premium was similarly undesirable.

On being advised by counsel that the promoters had to proceed to a decision from the Treasury, proprietors called for action to secure a 'negative' response from London. Eventually two resolutions were passed, the first proposed by Coke, the second by a Mr Connon.<sup>56</sup>

That in the opinion of this meeting, it is desirable that counsel's advice should be taken as to the measures which should be adopted to make it lawful for the promoters to put an end to the preliminary agreement of the Bank of China, and to return the deposit money.

That it is the opinion and desire of this meeting, that the promoters, on being so advised, should take all lawful means for having the Bank wound up, at their earliest possible convenience.

The follow-up was immediate, for on October 15 the Bank's solicitors wrote G. A. Hamilton at the Treasury requesting, in effect, a negative response to the charter application.<sup>57</sup> Stressing the objection of the Secretary of State for India, the solicitors asked whether they were correct 'in supposing that their Lordships are not in a position to recommend the grant of the Charter, and [the promoters] have requested us to obtain an intimation to that effect from you'. Henry Coke undertook his own unofficial follow-up by sending the Board of Trade a copy of the *Times of India* transcript of

<sup>56</sup> See note 54.

<sup>57</sup> PRO T. 1/6651A/18092.

the meeting and stressing that the majority wished to wind up.<sup>58</sup> The Treasury were surprised at the tone of the communications; they had not perhaps been asked by the promoters of an enterprise to disapprove its charter.<sup>59</sup> Indeed, they were unable to comply in such specific terms, restating their position that the promoters had not actually sought the sanction of the Secretary of State for India. This technically left the promoters with the necessity of obtaining this final negative, but there is no record that they did; the logic of the situation was sufficiently convincing, and the Bank of China was wound up.

The economic historian may leave the company sick room before the lawyer, but from time to time he will come across a mention of his company several years later and still in the death-throes—the winding-up process. In the case of the Bank of China litigation involved the deposit with the Asiatic Bank, and Bombay learned that a branch is not a separate enterprise; the Bombay assets of the Asiatic were sent to London.<sup>60</sup> In 1868 the Bank of China deposits had as yet not been fully repaid. 'A tragic ending . . . is really not for such as they.'

The promoters of the Bank of China were in one sense shrewd financial observers. They had detected from Bombay the new banking needs of the inter-port China trade and the growing treaty-port settlements. But they were inept managers, launching their bank without previously determining Hong Kong support and with provisions designed to insure Hong Kong reaction. Having made initial blunders, the promoters failed to withdraw, tying up the funds of their subscribers until only the disaster of the Asiatic forced them to a decision.

But in all this we have so far avoided the basic question: even if a charter had been granted and a Hong Kong management secured, what would have been the rôle of Bombay? The growing experience of international banking suggested that control by London of its Eastern branches was extremely difficult; the specific Indian experience was that once the head office of an Indian bank had been moved to London, the Indian proprietors lost control. Certainly this could have been expected also in the case of Hong Kong. With the appointment of a Hong Kong court of directors, the rôle of

<sup>58</sup> *Ibid.* Coke's letter was addressed to the Board of Trade with instructions that it be forwarded to the correct department. The Board of Trade transmitted it to the Treasury with a covering letter on 16 November 1866.

<sup>59</sup> See the minutes concerning the correspondence in *ibid.*

<sup>60</sup> The High Court of Bombay ruled that contrary to the claim of the Bank of China, the Bombay branch of the Asiatic Banking Corporation was not a separate legal entity and could not be subjected to Indian company law on being wound up. This had to be done in London by Court of Chancery. Here is justification of the Indian Government's objections to imperially chartered banks operating in India.

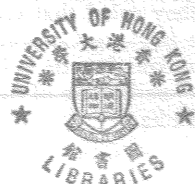
the Bombay promoters would have ceased. In the years 1864-1866 new international operations were being initiated so rapidly that good managers were most difficult to obtain; this would have caused additional problems, but the Bank of China never reached this stage.

We may assume that the Bombay promoters had some understanding of this situation, that they did not expect to control the operations of their Hong Kong based bank. We cannot, of course, be certain of this, since the promoters were too frequently unrealistic. Nevertheless, the conclusion must be that the Bombay interests expected to profit from the exertions of the Hong Kong management and from business provided by Hong Kong merchants, an expectation so obvious that it was important in arousing the opposition which created the Hongkong and Shanghai Bank. The Bombay promoters might have obtained a reward for their shrewd financial observation, i.e. that Hong Kong needed a local bank. This was their only contribution; this was their only hope. The Hong Kong merchants forestalled them. After August 1864 the story of the Bank of China has an element of unreality, understandable only in the context of Bombay speculative attitudes.

Had the Bank of China not met with Hong Kong opposition and been able to operate, many Bombay shareholders might then have sold out—at a premium. This would have been their final reward. The Bank of China was never conceived of as a purely bubble company, although it was part of the speculative scene which saw so many banks and financial associations floated and as quickly wound up. There was here the basis of a sound operation, and an apparently stubborn determination of the promoters to bring it into reality. Yet, they failed in the proper handling of Hong Kong, they failed to stake all in the immediate commencement of business and the securing of a charter. The promoters had other interests, Bombay had other problems.

The history of the Bank of China is one chapter in the financial history of the years 1864-1866, exciting years which saw the final development of the chartered banking system, the growth of international banking under the new companies ordinance, the impact of commodity speculation, and the rationalization of the banking system in the wake of the Overend Gurney crisis. That this history touches on all these must be its importance. For the Bank of China itself never existed; or if we quibble and grant it an existence, it was 'merely out of its sphere', and if we trust the lawyers to worry through to the final payment, we may conclude, 'The Bank of China is Dead'.

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