

A Preliminary Investigation into the Activities of the Hongkong Shanghai Banking Corporation in Nagasaki during the Meiji Period

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Introduction

Most research has clarified that, at the beginning of the 20th century, the Hongkong and Shanghai Banking Corporation (hereafter the HSBC) was the largest British international bank in Asia.¹⁾ Shizuya Nishimura discussed some of the bank's activities in Asia, but many activities at the branch and agency levels require further explanation.²⁾ Fortunately, archival documents held by the HSBC Group Archives in London were organized and promptly made available to researchers. Shizuya Nishimura analysed the archival documents that were made public and consolidated his findings based on their content.

The Hongkong and Shanghai Banking Co., Ltd was established through the HSBC regulation in 1865. Under the Hongkong and Shanghai Banking Ordinance (No. 5 of 1866), the name was changed to 'Hongkong and Shanghai Banking Corporation'. The advance into Japan began right after the bank's establishment in the same year, when a branch office was established in Yokohama. The Kobe, Osaka, and Nagasaki branches were established thereafter, and they played a major role in Japan's foreign trade financing operations during the Meiji era. This paper focuses on the Nagasaki branch.³⁾

Nagasaki played a central role as the only port to have been opened to the West;

1) Research on the HSBC includes investigations into the representatives of British capital in China. For example, Tomoo Matsuda (1949, Chapter 2) pointed out that, in China during the latter part of the 19th century, the HSBC stood at the pinnacle with trading capital underneath and industrial capital at the very bottom, thus forming a three-layer structure with trading capital fulfilling a defined and important role. Moreover, Matsuda pointed out that, though the HSBC dealt in long-term loans as its primary business in the commercial finance area, Jardine, Matheson and Co., together with the British and Chinese Corporation, were organized to fulfil the role of intermediaries for the export of capital to China from Britain. However, archival documents have recently been made available to the public, and research using secondary documents has been drastically revised.

2) Shizuya Nishimura (1993, 2014) conducted a wealth of research in this area. Here, we look only at his representative research on the Hongkong Shanghai Banking Corporation.

3) As well known, the HSBC had roughly two kinds of branch statuses, branch and agency. In this paper, we use only branch without making distinctions among the two statuses.

this was whittled away by the growing importance of Yokohama and Kobe during the Meiji period. However, Nagasaki retained its importance as a trading port for the overseas export of products from Kyushu in the Meiji period. At the same time, it also fulfilled an important role in terms of its trade with the Korean peninsula, which acted as an intermediary with China (Ishikawa, 2016, Chapter 2). For the HSBC, the biggest factor influencing the establishment of a branch in Nagasaki was its trade with the Korean peninsula.

The only primary source of knowledge regarding the activities of the HSBC in Nagasaki from the latter half of the 19th century until the beginning of the 20th is an Inspector's Report submitted in 1914 that is stored in the HSBC Archives. Our analysis of these data was presented in another paper. In this paper, we describe the activities of the HSBC's Nagasaki branch and offer a platform of researches with the HSBC's primary source, with a preliminary consideration for understanding its activities in Nagasaki.

Chapter 1 An Overview of the HSBC

Section 1 The Beginnings of the HSBC

The beginning of the HSBC's rapid expansion can be traced to the bankruptcy and suspension of payments of the Oriental Bank Corporation (hereafter the Oriental Bank) in 1884. The Oriental Bank was a British international bank in Asia that advanced into Japan with the opening of the country's ports. It was responsible for Japanese government financial transactions with the outside world at the beginning of the Meiji period. The HSBC was able to build a stable position amid the financing operation vacuum created by the Oriental Bank's collapse in Asia.

After the 1870s, however, the global economy fell into the deep and long-term depression. Because the economies of Europe and the US were weaker, most monoculture economies in Asia were stagnated. As a result of Masayoshi Matsukata's deflationary policies, Japan also found itself in an unavoidable short-term recession. In addition, the depreciation in the London silver market that began in 1873 continued unabated, with British banks in most parts of Asia—including India and China, which were on the silver standard—finding themselves compelled to reduce their business activities. Furthermore, French and German banks were established in Asia (mainly in China). Japan witnessed the establishment of the Yokohama Specie Bank, with fierce competition flaring up between international banks seeking to gain foreign trade financing operation business in Asia. All these factors contributed to the HSBC's sluggish business during this period.

The figures indicate that, in 1890, the HSBC's total assets were £25.6 million and the total asset profit ratio was 1.78%; in 1893, however, its total assets fell and the total asset profit ratio fell to £15.1 million and 1.66%, respectively. Thereafter, its performance improved. In 1913, its total assets stood at £39.9 million and the total asset profit ratio at 1.55% (Nishimura, 2007, p. 23). Moreover, after the end of the Sino-Japanese war, the HSBC played very important role for the war reparations payed by China to Japan at London and to issue railway construction bonds not only in China but also in the other Asian countries. In addition, the HSBC also played very important role to issue Japan national bonds, Tokyo municipal bonds, and other forms of debt, as the lead manager of European and Japanese international banks. Thus, the HSBC's business before the First World War is summarized rapid progress during the 1880s, stagnated during the 1890s, and recovered at the beginning of the 20th century (Nishimura, 2007, p. 23).

As the head office was located in Hong Kong, the costs of gathering information in Asia were decreased. This was also a major factor in the HSBC's rapid progress in the short term. In terms of human networks, London branch office managers A.M. Townsend and Sir C.S. Addis were very knowledgeable about the state of affairs in East Asia, while E.G. Hillier, who served as the branch manager at the Beijing office for over 35 years until 1926, was highly proficient in Chinese. Taking advantage of his language ability, he established personal connections with important government officials during this time (King, 1983). The deep knowledge of the economy and culture of Asian locales and the intimate relationship with the system of government in these regions became a powerful asset unique to the HSBC.

Section 2 Price Depreciation in the London Silver Market and New Business Opportunities for the HSBC

As mentioned, the London silver market suddenly began to confuse in 1873. The average price of silver from 1893 to 1895 was 31.95 pence. The parity between gold and silver was roughly 30 standards of silver for one unit of gold. These figures represent roughly half of the standards in the middle of the 19th century. The average price of silver from 1911 to 1913 was 26.7 pence, with the gold-to-silver parity at 35 (Spalding, 1924, p. 330-31)

The major factors in this sudden collapse in the price of silver at the London silver market included the transition from bimetallism to the gold standard in various Latin European countries that formed a monetary union, as well as the rapid increase in silver production due to the discovery of new mines in the US state of Nevada. However, these factors are secondary to the implementation of the extraction of

silver from zinc, lead and other base metal ores (Carpenter & Cullis, 1920, pp. 699–759). In 1912, the silver produced using this method accounted for about 65% of total production worldwide. The US and Canada alone constituted 80% of the total silver produced using this method. In other words, with the advent of industrialization, the demand for base metals spiked, and it became difficult to control their output. It was thus difficult to stabilize the chaos in the parity between gold and silver through adjustments in silver output. As a result, the output of silver, which was difficult to regulate, increased threefold over its 1870s rate (Shirras, 1919, p.451).

During the latter half of the 19th century, the serious fluctuation in the London silver market inflicted serious damage on international bank's activities in Asian Countries and Colonies which were mainly adopted to silver standard. Many international banks, including the Oriental Bank, were forced to be suspended its payments. The Chartered Bank of India, Australia, and China (hereafter the Chartered Bank) began giving directions to sell the silver assets of each branch that were in excess of its liabilities, buy British pounds, and remit them to the London headquarters. The HSBC basically used the same method, referred to as the 'even keel policy' (Spalding, 1912; Kitabayashi, 1992).

Moreover, the HSBC collected deposits at its Asian branches, especially in China and Hong Kong, the amount of deposits collected in Asia was much larger than other international banks. Beginning in 1895, silver local currency deposits and British pound deposits were differentiated and recorded on balance sheets. With regard to other currencies, gold and silver currencies were recorded separately. We cannot analyse the balance sheets of the HSBC in chronological order because many of its documents were lost. However, the balance sheets of the Chartered Bank can be analysed. If we compare the Chartered Bank's figures in the periods for which we have HSBC figures, we find that the HSBC's deposit amounts were almost 10 times greater than those of the Chartered Bank. Generally, the HSBC is believed to have maintained an overwhelming presence in Asia (Nishimura, 2007, p.27).

Section 3. The HSBC's Fundamental Business

The HSBC's core business consisted basically of selling remittance bills on London in exchange for local currency, used to purchase fixed-date bills of exchange on London in pound sterling as collateral for exported goods. Most of these remittance bills were transferred via telegraph. Money exchange profits, which constituted the most important source of earnings for international banks, were made when the market price of the acceptance credits fell along with interest rates.

Furthermore, in this period, Asia had a specialized primary product export

economy that played an important role within the international division of labour. As many Asian economies were primarily agrarian, seasonal factors affected their capital requirements. Thus, during busy agricultural periods, exports increased, which in turn led to an increase in the British pound export bill sales, causing the market for the British pound to decline. On the other hand, during off periods, export bill sales fell, causing the market for the British pound to rise. Accordingly, to trade export bills, those who could utilize the differences in the market for the British pound during the two seasons could gain stable annual profits. With few internal documents remaining, the question of how the HSBC traded export bills cannot be elucidated. It is generally believed that profits were made in a similar manner.

Besides this business of making profits on currency exchanges, many international banks in Asia made profits from loans given to customers. Although the earnings of the international banks were not particularly great, it was an indispensable financial service for their trader clients. In particular, the lending of capital was needed for inventories until the capital and contracts for the sale of imported products and the collection of export product cargo were established.⁴⁾ This service helped ensure the buying and selling of promissory notes.

In addition to securing appropriate collateral, the lending of capital necessary for the collection of the export cargo occurred chiefly via methods that involved establishing an accounts for overdrafts. Furthermore, when lending capital necessary for safekeeping in warehouses until contracts were created for the exported products, articles kept as collateral were warehoused and often used against these loans. As mentioned, any necessary capital was collected as local currencies-dominated deposit. Collecting methods involving fixed deposits were particularly popular. Hence, international banks, including the HSBC, tapped earnings using the difference in interest rates between the fixed deposit and the capital which was lent out.

In this way, international banks active in Asia were making profits. Among these banks, the HSBC was especially active in spreading its roots and developing business in East Asia. A significant factor in making this possible was undoubtedly the head office's location in Hong Kong. In the business of international banks during this time, large and complex cases were often referred to the head office. As a result, branch managers of international banks other than the HSBC had little choice but to check with the European head offices each time such an event occurred. Moreover, using

4) Looking at Indian cases from the 1920s, when Toyo Cotton Co. entered raw cotton production areas to purchase the product directly, it is clear that the Yokohama Specie Bank, in particular, offered this service (Kagotani, 2000, Chapter 4). Moreover, at the branch manager meetings of Mitsui Trading Company, it became clear that the Yokohama Specie Bank along with the HSBC had provided the same service (Nishimura 2012; Takeshi Nishimura 2014).

the telegraph to discuss such issues was very expensive, and thus impossible. Therefore, the only way to inquire about such matters was via letter (Kaukiainen, 2001). According to Farnie (1968, p.451), letters sent between China and Europe took 37.5 days one way in 1889 and 29 days in 1893, whereas the time it took for the HSBC to send letters between the head office in Hong Kong and branch offices in Japan, the Chinese mainland, Southeast Asia, or South Asia was extremely short. The HSBC was consequently able to make prompt administrative decisions, which contributed greatly to its successful collection of large deposits.

Section 4. Issuing of Foreign Loans by China and the HSBC

From the latter half of the 19th century, the HSBC developed close relationships with China's central and regional governments.⁵⁾ Thus, the business of lending capital to China's governments was conducted on a scale unmatched by any other international bank. During this period, the HSBC took part in about 65% of all capital borrowed by the China's governments from overseas. Moreover, roughly 20% of the HSBC's total earnings were foreign loans issued by China's governments. The HSBC had not yet begun to monopolize China's foreign loan issuance business; thus, there was no room for other international banks.

However, when Japan won the first Sino-Japanese War, China was forced to pay reparations that were far larger than the annual revenue of its central government, thus compelling the issuance of foreign debt. Naturally, the HSBC planned to claim this great business opportunity as its own, but it was snatched away by the Russo-Chinese Bank,⁶⁾ an international bank created with capital from France and Russia (Yago, 2012; Yago, 2014). Thereafter, the Russo-Chinese Bank began to openly compete with the HSBC in different fields. Due to these failures, the HSBC entered into an agreement with the Deutsch-Asiatische Bank and planned the issuance of foreign loans in accordance with the reparations to be paid by China. Thus, with several international banks forming a syndicate, the HSBC experienced difficulty in monopolizing the issuance of foreign loans in Asia, especially in China, at the beginning of the 20th century.

5) According to the HSBC's Inspector's Report, during this time, most depositors at the Beijing and Tianjin branch offices were government agencies and important government officials, while those at the Shanghai branch consisted mostly of European traders and businesses (Shizuya Nishimura 2014).

6) Following the first Sino-Japanese War, Russia and China entered into a secret pact. In a fundraising effort by the Russo-Chinese Bank, the Russian government itself issued four hundred million francs worth of government-guaranteed bonds in France and Paris (Nishimura, 2007, p.30).

Section 5. The HSBC and Nagasaki

As a result of the transportation and communications revolution in the second half of the 19th century, the frontiers of various parts of the world opened up, and commodities flowed into the global market at an unprecedented rate. Thus, commodity prices suddenly fell, wreaking havoc on the Asian countries that relied on exporting commodities to advanced countries. In addition, due to the sudden plunge in the London silver market, foreign exchange risk increased, causing many international banks' activities in Asia to suffer an administrative crisis, with some banks actually failing. During this period, Asia proved to be very important for international banks. It was in this environment that the HSBC came to display its peculiar organizational traits and superiority, thereby growing to become the largest international bank in Asia.

After the Meiji restoration, under the new government's economic policies, Japan dealt with a growing proactive foreign trade—especially in the export of raw silk, which played an important role. The export of raw silk played a key role in inaugurating research on Japan's trade history. Thus, it has been thoroughly examined and does not require further discussion. Furthermore, the raw silk exports financing operations in Yokohama became the principal issue in Japan's economic history. However, while the foreign trade financing operations for accompanying the export of raw silk were major businesses for the international banks in Yokohama, Kobe, with its harbour opened to Asia, had a trade structure based on modern manufacturing industries, which needed the import of raw materials like Indian raw cotton and the export of processed goods like cotton yarn and cotton thread to the Chinese mainland and the Korean peninsula. The features of the trade financing operations, which have become empirically clearer over the last several years, were different from that of Yokohama (Takashi Nishimura 2014). Many issues remain in the research on Japan's trade history.

As mentioned above, although Nagasaki had lost their overwhelming sense of superiority, she managed to remain the leading trade ports in Japan during the Meiji period. In particular, the relationship with the Korean peninsula was unique. The following chapter describes a part of the local economy of the northern part of Kyusyu, with a focus on Nagasaki's trade structure, and discusses the management of the HSBC's Nagasaki branch.

Chapter 2. A General Outline of Trade in Nagasaki during the Meiji Period

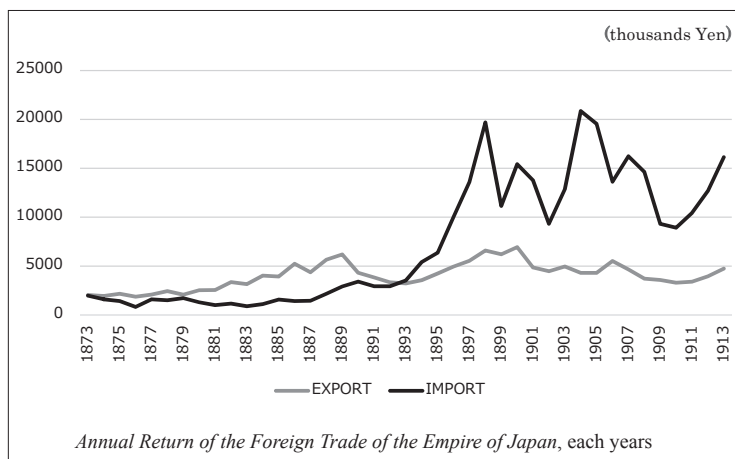
Section 1. Trends in Trade in Nagasaki

Japan's prosperous trade with the Netherlands, which was once permitted in Nagasaki, began to decline after the Meiji Restoration, with Yokohama and Kobe taking over as major ports for overseas trade. Most studies on the history of foreign trade during the Meiji period focus on the raw silk trade. Regarding business relationships between domestic and foreign trading companies, European and American trading companies were assumed to have good relationships with Japanese merchants. Hence, subjects like the opening of ports during the end of the Edo period and the decline in trade in Nagasaki have often been neglected. The actual business transactions of these domestic and overseas merchants in Nagasaki are not fully known.

At the end of the Edo period, the opening of the port at Yokohama became an area of European influence dealing almost exclusively with the raw silk trade. The overseas trade by Chinese merchants during the final years of the Edo period continued during the Meiji period, when Japanese merchants were not yet proactively involved in direct trade, either domestic or overseas. Moreover, a wealth of research has established that Japan's foreign trade was carried out by European and American trading companies (merchants) or their compradors, like Chinese merchants. Unlike in Yokohama and Kobe, Chinese merchants played a major role in the other principal trade port of the Meiji period—Nagasaki.

Let us look at the changes in foreign trade. According to Annual Return of the Foreign Trade of the Empire of Japan, the early years of trade in Nagasaki were

Figure 1: Trends in Foreign Trade of Nagasaki Prefecture during the Meiji Period



(Source) *Annual Return of the Foreign Trade of the Empire of Japan, each year.*

favourable until 1893, when imports increased excessively (see Figure 1).⁷⁾ Thereafter, the gap between exports and imports suddenly expanded, and the final years of the Meiji period saw imports grow three times the size of exports.

Observing Nagasaki's export organization during the Meiji period (see Table 1), the high ratio of special exports is apparent. The figures were especially high in 1908, when they constituted around 58% of gross exports. The special exports in this period consisted of a large proportion of fuel (mostly coal), food, and other articles for foreign vessels and domestic as well as foreign ships. In 1910, fuel coal comprised about 94% of special exports.⁸⁾ This high rate of special exports reflects the slump in normal exports, thus revealing the special characteristics⁹⁾ of Nagasaki's trade structure during the Meiji period (Nagasaki prefecture, 1976, pp. 450–451).

Table 1: Composition of Nagasaki's exports during the Meiji period

Year		(¥ 000)		
		1888	1898	1908
Exports	Food	2,418	1,636	1,473
	Textiles	17	286	95
	Processed goods	494	340	267
	Ores, metals, and machinery	1,029	931	756
	Sundry goods	220	391	702
	Total	4,177	3,585	3,293
Re-exportation		151	882	424
Special exports		1,297	2,120	5,067
Total		5,625	6,587	8,783

(Source) Nagasaki prefecture (1976), *Nagasaki-ken-shi: Kindai-hen (History of Nagasaki Prefecture: A Modern Compilation)*, Tokyo: Yoshikawa Kobundo, p. 453.

7) According to Hiroki Uchida (2007, pp. 33–34), Nagasaki had an excess of imports in 1884. Uchida believes that the difference in the figures was caused by the use of the numerical values from the Nagasaki Prefecture Statistical Reports. Sufficient research has not yet been conducted on the reasons for the existence of these differences with Annual Return of the Foreign Trade of the Empire of Japan.

8) For Shanghai, Hong Kong, and the Straits Settlements, coal produced by the Takashima, Miike, and Chikuho Coalmines competed with and was isolated from the coal produced in Cardiff and Australia, and uniform shares were rapidly and successfully acquired by Asian coal markets. Shinya Sugiyama (1989, p. 210) points out that the success of these coal imports was the beginning of the switchover from a European and American style to an Asian style of foreign trade. Regarding business conditions for coal produced in Japan for Shanghai and Hong Kong and the role of Mitsui Trading Co., please see the research by Naoto Yamashita.

9) The Search Report on Important Commodities from Each Prefecture indicated that the national position of the trade port at Nagasaki was reduced to one of local importance. However, Nagasaki's foreign trade structure was limited to a special existence that consisted of 1) special trade for warships stopping at ports; 2) the trade of marine products and coal; 3) Mitsubishi's import of raw materials for building ships and heavy industries; 4) intermediary trade within Kyushu; and 5) essential intermediary trade between foreign countries and overseas territories. The effect of these trades to local industries in Nagasaki was extremely weak (Nagasaki prefecture, 1976, pp. 442–444).

Section 2. Changing Transportation Methods: From Sea to Land Transport

The large impact of changes in the transportation system on the industrial structure can be observed in the transition from maritime to land transport. As goods were directly transported from the production areas to the harbour via railways in Kyushu's coal industry, considerable changes in distribution may have occurred thereafter. However, prior to the opening of the railroads, ships represented the main form of transportation linking production areas to harbours. The capacity of the ships entering Nagasaki was overwhelmingly large compared to the other major ports of Kyushu at the time (Nakamura, 2003, p. 53). Although, with the dawn of the Meiji period, the position of Japan's major trade ports continued to decline, the position of the harbours that collected and distributed products within Kyushu was still strong.

The products exported by ship that entered the ports of Nagasaki during the Meiji period consisted mainly of coal, rice, camphor, and other similar products. These ports did not merely play a role in the shipping of coal and rice; they also played a huge role in continuously collecting and delivering products from the northern part of Kyushu during the final years of the Edo period (Nakamura, 2003, p. 56). From the end of the Edo period until the beginning of the Meiji period, Nagasaki continued to maintain the core harbour function of coastal trade developed in the northern part of Kyushu. It is believed that its position as 'the Nagasaki as Kyushu' trade port' was more important for Japan than overseas trade.¹⁰⁾

Thereafter, railways continued to be established across the country, including Nagasaki, as land transport, mainly rail transport, surpassed maritime transport in linking the different regions of the country. In the case of Nagasaki, the main production areas for coal at the beginning of the Meiji era were the neighbouring coalmines, including the Takashima coalmines, which gradually lost their position to the Miike and Chikuho coalmines (Ishi, 1986, p. 47). These areas were linked to Moji directly through the railways (Nakamura, 2003, pp. 72–74), causing Nagasaki to quickly lose its position as a trade port. In other words, Nagasaki was not compatible with the changes that took place in the linking of major coalmines through the railways and thus quickly lost its position as an important trade port (Nakamura, 2003, pp. 59–62).¹¹⁾

10) Refer to the research by Tojo (2014, pp. 97–106) on the activities of Mitsubishi how the regular routes between Nagasaki and the domestic regions were formed from the end of the Edo period until the early Meiji period.

11) At the beginning of the Meiji period, Nagasaki witnessed the construction of the railroad, which did little to support the features of a trade port. Instead, discussions were held aimed at expanding the distribution of goods with Nagasaki and the surrounding prefectures (Tojo, 2014, pp. 107–117).

Section 3. Japanese and Foreign Merchants

In the January 14, 1909 issue of the *Toyo-Hinode-Shinbun*, an article titled 'The Transfer of Trading Rights' insinuated that Japanese merchants had rapidly picked up the methods of the Chinese traders in Nagasaki. However, in the 1900s, around 23.3% of Nagasaki's exports comprised the direct trade conducted by Japanese merchants, while imports constituted more than 41.8%. In 1893, the percentage of the direct trade out of total exports was 10.9%, suggesting that Nagasaki's foreign trade had rapidly shifted to Japanese merchants during this period (Uchida, 2007, p. 41). Nevertheless, a large part of transactions was conducted by foreign merchants. In particular, the amount managed by Chinese merchants was large, comprising roughly 52% of Nagasaki's exports in 1907.¹²⁾ This percentage maintained around 40% at the beginning of the 20th century (Hara, 1991, p. 72).

According to the 'Register of Foreign Trade Merchants in Nagasaki Wards', published in 1882, 226 merchants were managing trade operations in Nagasaki. These merchants made a living mainly by acting as domestic and foreign intermediaries for foreign products, collecting/brokering marine products and coal, and selling to overseas merchants (Uchida, 2007, p. 41). At the beginning of the Meiji period, merchants producing lacquerware and porcelain also participated in trade at Nagasaki.¹³⁾ Although these Japanese traders continued to enjoy high social status throughout the Meiji period, there faced difficulties as they attempted to surpass foreign traders, particularly Chinese ones.

Though European and American traders held important positions at the end of the Edo era, Chinese traders began to claw away at their status around the middle of the Meiji period. As a result, major European and American traders left Nagasaki. Thereafter, while the resident Chinese merchants built commercial networks and expanded their business in Nagasaki (Liao, 1997). To provide necessary financing to Chinese merchants residing in Japan, European banks established branches in Japan. The HSBC was one of the first banks to establish a branch in Nagasaki.

12) As regards marine product businesses, which make up most of Nagasaki's exports during the Meiji period, Chinese merchants dominated this area (Uchida, 2007, p. 41). Please note that, at the end of the Meiji period, problems related to business methods occurred between Chinese and Japanese merchants. Eventually, the Japanese side gave in, and a settlement was reached. Given these experiences, Japanese merchants realized that much of Japan's trade was highly dependent on the expansion of direct exports (Nagasaki prefecture, 1976, pp. 391-392; Nagasaki City, 1939, pp. 145-147)

13) Research conducted by Minoru Kiyama (2005) clarified the antagonism between trading companies and regional traders in Nagasaki in the Meiji period.

Chapter 3. A General Overview of Activity in the Nagasaki Branch of the HSBC

Although prominent European merchants such as Nederlandsche Handel-Maatschappij, Glover & Co., Dent & Co., and Jardine, Matheson & Co. advanced into Nagasaki immediately after the ports were opened, there was a noticeable lack of significant foreign banks. As a result, prominent trading companies also operated financial businesses (Tatewaki, 1985, p. 239).¹⁴⁾ International banks set up branches in Yokohama and Kobe even faster than in Nagasaki. While it is believed that this provided an opportunity to receive financial services from banks, trading companies in those days often conducted business using their own capital. The foreign trade financing operations by international banks seems to have occurred right around the middle of the Meiji period.

As mentioned, the HSBC was established on March 3, 1865, as an international bank, with its head office in Hong Kong, where it was positioned at the core of British merchants such as Dent & Co. and Peninsular and Oriental Steam Navigation Company. In the following month of that year, a branch was established in Shanghai, and another was established in Yokohama in July. In 1870, the network of branches was expanded to Kobe, and the HSBC began the businesses in Nagasaki in 1892.

In Nagasaki, until the HSBC established a branch, agents were consigned to British trading companies or trustworthy British nationals residing in Nagasaki. The first was Glover Co., followed by Adrian & Co., Van Delden & Co., Jardine Matheson, and Browne & Co. (Tatewaki, 1985, p. 248).

In the 1890s, international banks were set up in Nagasaki in succession. As regards British banks, the HSBC established a branch in 1896 and the Russo-Chinese Bank in 1897. The Russo-Chinese Bank had to close its branch as a result of the conflict between Russia and Japan in 1904, leaving the HSBC with its branch in Nagasaki, which closed during the Great Depression in 1932.

In 1891, the HSBC dispatched A.B. Anderson to Nagasaki. The HSBC was renting a building from Browne Co., which had been serving as an agent for the HSBC. Later, in 1896, the HSBC ended its agent relationship with Browne Co. and established a branch in Nagasaki (King, 1988, p. 96).¹⁵⁾

14) See the research by Kanji Ishi (1984, pp. 145–155) regarding financing immediately following the opening of operations of Jardine Matheson Holdings.

15) Kazuo Tatewaki (1985, p. 251) considered 1892 as the year the Nagasaki branch was opened, based on the January 13, 1892 issue of *The Rising Sun and Nagasaki Express*. According to the description in other studies on this time period, the question of which branch office was to be established was a point of contention. Here, we will utilize the observations by F. H. H. King.

During that time in Nagasaki, regional private banks had already been established, and, unlike the other principal trade ports in Yokohama and Kobe, the HSBC did not play a leading role in modern banking.¹⁶⁾ According to the written history of the Eighteenth Bank Ltd., there were 10 banks in Nagasaki in July 1899, including the HSBC and the Russo-Chinese Bank. The Yokohama Specie Bank had established a branch to take care of trade financing operations for the direct trade (Eighteenth Bank Ltd., 1978, p. 59).

Of the remaining seven banks, there was only one *zaibatsu* bank, Mitsui Bank, while the other six were regional banks. Among them, the Eighteenth Bank Ltd. had the most extensive business. In 1890, a branch office was established in Incheon, while financing the marine products business in Nagasaki and the Korean peninsula (Eighteenth Bank Ltd., 1978 p.106). Chinese merchants played a major role in trade with the Korean peninsula; aiming to establish a branch in Nagasaki, the HSBC's business was also highly regarded (King, 1988, p. 96).

There is very little information¹⁷⁾ on the management of the Nagasaki branch from the end of the 19th century until it closed in 1932.¹⁸⁾ According to the few written accounts of the management conditions during that time, the HSBC had few business relationships with Japanese merchants;¹⁹⁾ most of their business partners were European/American or Chinese merchants. To supply foreign trade financing operations for these merchants was the most important business of the Nagasaki branch, while exchange trades and foreign financial transactions with companies and merchants in Shanghai, Hong Kong, and London and loans necessary for European/American or Chinese merchants were not handled by the HSBC's Nagasaki branch. Thereafter, during the world wars, Nagasaki lost the status of a foreign trade port, which slowed business and prompted the closure of the branch offices during the business recession caused by the Great Depression in Japan (The Eighteenth Bank

16) Refer to materials compiled by Nagasaki prefecture and Nagasaki city regarding changes to banking within the Nagasaki city (Nagasaki city, 1939, pp. 178-184; Nagasaki prefecture, 1976, pp. 399-403).

17) With regard to items in the HSBC archives, primary sources related to the HSBC's Nagasaki branch prior to the First World War are limited to the 1914 Inspector's Report. As regards the Yokohama and Kobe branches, other letters and documents exchanged with the main branch remain, while further investigation is also needed to see if anything remains regarding the Nagasaki branch.

18) According to documents belonging to Nagasaki city, the branch closed in April of 1931, but here we use the date indicated by F.H.H. King (Nagasaki city, 1939, p. 184).

19) If we look at the income and expenditures of banks that established branches in Nagasaki in 1917 and compare them with the rest, the HSBC had no more than 0.75% of total deposits and 0.70% of total amount invested. In contrast, Yokohama Specie Bank, which carried out foreign exchange tasks similar to the HSBC, had 9.1% of total deposits and 9.2% of the total amount invested. The Yokohama Specie Bank was perceived as strengthening the relationship with traders who had set up positions within Nagasaki more than the HSBC. (Nagasaki City Elementary Staff Union, 1925, p. 398). Here, we present numerical values for five years beginning in 1917. For the most part, no changes were noted in the percentages.

Ltd., 1978, p.299). After the closure of the branch, agent duties were conferred onto Holme Ringer & Co. (Burke-Gaffney, 2013, p. 152).

Future Topics

We have discussed the HSBC's activities in Nagasaki during the Meiji period with a focus on the conditions in Nagasaki that formed the backdrop to these activities for analysing its trade. During the Edo period, Nagasaki dominated trade with the West; during the Meiji period, Yokohama and Kobe assumed this role, reducing Nagasaki's national presence to a local one. After the opening of the port at the end of the Edo period, many merchants, including Glover Co., created positions in Nagasaki to carry out their trading businesses, but many moved to Kobe and Yokohama during the Meiji period. With regard to banking, even with branches set up in Nagasaki, there were few businesses involving branch offices. The HSBC was the only bank to maintain a branch until the 1930s.

Moreover, international bank's activities in Yokohama and Kobe encouraged to accompany Japan's overseas trade. Furthermore, the contributions made to the development of the modern banking industry have been made evident through the previous studies of Japanese Financial History. On the other hand, in the case of Nagasaki, during the period in which the HSBC had established a branch, locally funded banks such as the Eighteenth Bank Ltd., which advanced into the market more slowly than the Mitsui Bank, had already been established. Moreover, with no administration to proactively increase business with Japanese traders, these banks continued their management activities with an emphasis on business with European/American and overseas Chinese merchants. The management scope of the Nagasaki branch did not grow as rapidly as that of other financial institutions.

International banks, including the HSBC, entered Nagasaki solely to participate in its trade-related finance. In the case of the HSBC, similar to the Eighteenth Bank Ltd., major interest was expressed in trade with the Korean peninsula for marine products, thus leading to the establishment of the branch offices. Naturally, as so much interest was expressed in trade with the Chinese continent, particularly overseas Chinese merchants, there were no doubts regarding the strong relationship that the overseas Chinese network had with the HSBC and its expansion into Nagasaki. However, during the middle of the Meiji period, Nagasaki, with its ratio of foreign trade dwindling, was replaced by Kobe and Yokohama. There were plans take advantage of Nagasaki's own geographic superiority to expand foreign trade with the Chinese continent, but the textile and sundry goods industries developed in the

Osaka–Kobe area with Kobe's rising importance as a port city exporting to the rest of Asia. Then, around the beginning of the 20th century, the ratio of Japan's total foreign trade accruing to Nagasaki fell to less than 10%.

Thus, Nagasaki, which was overshadowed by the development of Yokohama and Kobe near the areas of mass consumption such as Tokyo and Osaka, was not directly connected to major new coalmines such as the Miike or Chikuho coalmines. This is why Nagasaki lost its superiority as the port from where Japan's major export goods were dispatched and foreign trade was conducted during the Meiji period. Then, why did the HSBC maintain the branch in Nagasaki for such a long period, and what is the source of operating profits for HSBC's Nagasaki branch? Other than the remaining portions of the Inspector's Report submitted in 1914, no concrete evidence remains. However, by presupposing the circumstances surrounding the status of Nagasaki during the Meiji period, as explained in this manuscript, we believe that very little data have been exploited. Thus, we plan to analyse the administrative trends of the Nagasaki branch in next papers.

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