Introduction: Liquidity, Hard and Soft Currencies, and Trade Finance

> "International currencies are not all of equal value as units of account, standards of deferred payment, and media of exchange. They stand in relationship to one another not as full equals, but in a hierarchical arrangement of ascending utility as international money."
>
> Charles P. Kindleberger, "The Politics of International Money and World Language", P. 4.

1. Introduction

The findings presented in this book have started out from the intuition that the adoption of certain economic policies, the creation of specific financial institutions and their success are, to a large degree, a function of one's relative position within the fabric of the international system. More precisely, we infer that, if the international system is differentiated along the lines of center and periphery, there should be concrete evidence of the latter in the way countries with a different position choose to cope with sets of more or less identical challenges.

This may seem self-evident to most readers, and we too, believe it should be a central element in any formal analysis. This being said, only a limited segment of literature in financial history appears to agree. Even a casual look at most available analyses demonstrates that most are *not* aimed at understanding institutions within their specific historical and social context. Instead, the crux of the analysis is with measuring the effects of, for instance, a fiscal or monetary policy change, 'all else being equal'.

Whereas it is far from our intention to criticize the discipline for this predilection, we consider it important to stress this book has had a very different inspiration. In the following, the structure and hierarchy of the world system are taken seriously. Concretely, we will study the disadvantageous position of a group of peripheral currencies in late nineteenth century Asia; and we document the efforts by (European and Japanese) exchange bankers to boost these currencies' liquidity, in order to guarantee their viability for functioning as vehicles for financing intra-Asian trade in the period. If anything, they proved to be highly inventive. We will witness experiment with financial contracts related to bill finance; the development of a strategy to hedge exchange risk *vis-à-vis* the hard currencies at the time; and Japanese attempts at creating hard currency status for the *yen* by aggressively capturing market share for its semi-national exchange bank, the Yokohama Specie Bank.

This attention to sociohistorical contingency has had its methodological ramifications. When possible, but especially in chapters ??? and ????, the discussion proceeds in an ethnographic or 'forensic' way. Concretely, this means that data were not to be extracted from their historical and material environments, but have been introduced *as they were gathered, structured, and formulated within their respective historical context*. This goes well beyond the traditional distinction between quantitative and qualitative research and may, possibly ironically, have only reinforced the concern with quantitative information. Due attention to so-called documentary evidence has helped to ensure that the questions being asked were also relevant to the subjects of our inquiry, i.e. nineteenth century exchange bankers and monetary policy makers. We considered their concerns with the geography of the world system at the time as the validation of the 'structuralist' network theoretical intuitions that underlie much of the analyses and conclusions presented here.

2. Center and periphery in the literature

Obviously, this book is not the first to draw attention to the asymmetric nature of the global monetary system. The unequal opportunities stemming from a world that has been differentiated along the categories center and periphery have been discovered repeatedly. Although it would be an enormous, indeed impossible, task to review all related literature, it is nevertheless instructive to highlight several of the most representative ones.

Incidentally or not, two seminal papers appeared in immediate succession at the end of the 1960s. First, there has been Kindleberger's exploration of similarities between international money and world language.[1] Factually a reply to international criticism of the post-World War II dollar standard as a nationalist or imperialist device, Kindleberger points out that there is a dimension to the debate that transcends mere political choice. As in the epitaph, we are reminded that currencies do not come to the international table as equals. Some are more prestigious than others. They are more likely to be used as unit of account and/or medium of exchange, yet the latter is defined by transaction costs, and not political choice or agency. Currency prestige cannot be willed into being, but is largely a function a currency's degree of circulation. It is, in other words, a function of what we would now refer to as a network effect: the degree to which it is accepted *by others* drives down transaction and information costs, thereby propelling and bolstering its acceptance. Put differently, what is behind the emergence of one or a limited number of key currencies is "the ordinary search of the world for shortcuts in getting things done".[2] Admittedly, Kindleberger's remarks were formulated in the historically narrow context of the dollar standard, but we highlight them because

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[1] Kindleberger, Charles Poor. 1967. *The Politics of International Money and World Language*. International Finance Section, Department of Economics, Princeton University. https://www.princeton.edu/~ies/IES_Essays/E61.pdf.

[2] Kindleberger, Charles Poor. 1967. *The Politics of International Money and World Language*. International Finance Section, Department of Economics, Princeton University. https://www.princeton.edu/~ies/IES_Essays/E61.pdf. P. 10. Note the similarity with the 'transaction costs' approach that underlies for instance Krugman's take on [...]

of their theoretical importance. Later in this chapter, we will come back to Kindleberger's analogy, and due attention towards market share —the 'politics of world language' in shaping the pecking order the international monetary system.

Only 2 years later, in 1969, French historian Fernand Braudel addressed a similar dynamic in the context of the early development of capitalism,[3] a topic much closer to our discussion. Admittedly devoid of the East-West or North-South divide that has become the focus of later literature, Braudel identifies the very structure of early capitalist societies in terms of core vs. periphery. From his description, early capitalism was a club for the happy few that carefully discriminated against those without a membership card. For the members of the club, capital formation was not only possible, but significant; outsiders, on the other hand, were completely choked off from the means and technologies that enabled wealth creation. Braudel has picked his metaphors carefully. Capitalism, in his words, can be likened to a cyst (a 'bell jar') within the larger societal organism. In a developmental perspective, we may refer to the co-development of its parts according to different velocities.

Braudel's metaphor has had considerable bearing upon modern development economics. It has, for instance, been reiterated in the work of Hernando de Soto, who dubbed it the 'mystery of capital', and takes it to be symptomatic for today's financial system.[4] Indeed, many countries have tried to tap into the liquidity of the global capital centers, but results have been mixed. For some, access to international capital has been hampered by a great deal of impediments, from high interest rates to conditionalities attached to loans and so on.

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[3] Braudel, Fernand. 1979. *Civilisation Matérielle, Économie et Capitalisme: XVe-XVIIIe Siècle*. Vol. II. Paris: A. Colin. P. 289.

[4] Soto, Hernando de. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.

De Soto's take has, in turn, been popularized as the notion of 'original sin'.[5] Put simply, original sin refers to the difficulty or outright impossibility of certain nations to borrow in their own currency. This spurs the adoption of macroeconomic policies (a peg with a core currency, for instance) that may alleviate problems related to debt servicing (in the above example, by eliminating exchange risk), yet nevertheless entail a considerable cost and therefore enshrine these countries' financial vulnerability. The dynamics of original sin have come to be understood relatively well. However, its authors do not provide the determinants of the latter. What are the drivers behind the differences in financial solidity and prestige?

3. The Geography of the International Monetary System, 1890-1910

The empirical investigation of the monetary geography of modern capitalism has been a much more recent undertaking. In a series of papers, Marc Flandreau and Clemens Jobst do not only attempt (1) to reconstruct monetary relationships around the turn of

[5] Eichengreen, Barry, Ricardo Hausmann, and Ugo Panizza. 2002. "Original Sin: The Pain, the Mystery, and the Road to Redemption." In *IADB Conference "Currency and Maturity Matchmaking: Redeeming Debt from Original Sin*. http://economika.com.ve/material/Macro3/papersma3/Hausmann-Original%20Sin.pdf; ———. 2003. "The Pain of Original Sin." *Other People's Money: Debt Denomination and Financial Instability in Emerging Market Economies, University of Chicago Press, Chicago*. http://eml.berkeley.edu/~eichengr/research/ospainaug21-03.pdf; ———. 2007. "Currency Mismatches, Debt Intolerance, and the Original Sin: Why They Are Not the Same and Why It Matters." In *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences*, 121–70. University of Chicago Press. http://www.nber.org/chapters/c0150.pdf; Hausmann, Ricardo, and Ugo Panizza. 2003. "On the Determinants of Original Sin: An Empirical Investigation." *Journal of International Money and Finance*, Regional and International Implications of the Financial Instability in Latin America, 22 (7): 957–90. doi:10.1016/j.jimonfin.2003.09.006; ———. 2011. "Redemption or Abstinence? Original Sin, Currency Mismatches and Counter Cyclical Policies in the New Millennium."*Journal of Globalization and Development* 2 (1). doi:10.2202/1948-1837.1127; Panizza, Ugo. 2006. "'Original Sin' and Monetary Cooperation." In *New Issues in Regional Monetary Coordination*, edited by Barbara Fritz and Martina Metzger, 26–41. Palgrave Macmillan UK. http://link.springer.com/chapter/10.1057/9780230502444_2.

the twentieth century,[6] but (2) also try to explain *why* it evolved in the ways it did.[7] Here, we are not so much concerned with the description of the monetary geography of the period. As can be expected, there are not that many surprises here. Flandreau/Jobst confirm the existence of a pyramid-like hierarchy of monetary status, with the British pound as the obvious champion, closely followed by the French *franc* and German *Mark*. A secondary layer is occupied by the currencies from (mostly) neighboring countries (Belgian franc, Dutch guilder, and so on). Although not as central as the aforementioned key currencies,[8] these are nevertheless highly liquid, which can partially be explained by their proximity to the large European money markets; the United States dollar is the only, albeit an important, exception here. Currencies composing the broad base of the pyramid are from countries that, among themselves, may have very different geographical locations, yet are united in their remoteness from the core currency countries. This basket comprises the currencies from Southern American, African, and Asian countries.

For now, we are mostly interested in their analysis of the determinants behind the formation of this pyramid-like structure. Clearly informed by Kindleberger's conjectures, they draw heavily on transaction-costs literature[9] to explain the emergence of monetary leadership. The intuition is straightforward: transaction costs are bound to produce network effects and, by extension, persistence. One may think about it in the following way. When economic actors find themselves in a multi-currency world, they

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[6] Flandreau, Marc, and Clemens Jobst. 2005. "The Ties That Divide: A Network Analysis of the International Monetary System, 1890–1910." *The Journal of Economic History* 65 (04): 977–1007. doi:10.1017/S0022050705000379.
[7] Flandreau, Marc, and Clemens Jobst. 2009. "The Empirics of International Currencies: Network Externalities, History and Persistence." *The Economic Journal* 119 (537): 643–64. doi:10.1111/j.1468-0297.2009.02219.x
[8] Lindert, Peter H. 1969. *Key Currencies and Gold, 1900-1913*. Princeton Studies in International Finance, no. 24. Princeton, N.J: International Finance Section, Princeton University.
[9] For some of the most representative examples, see: Kiyotaki, Nobuhiro, and Randall Wright. 1993. "A Search-Theoretic Approach to Monetary Economics." *The American Economic Review* 83 (1): 63–77. http://www.jstor.org/stable/2117496; Matsuyama, Kiminori, Nobuhiro Kiyotaki, and Akihiko Matsui. 1993. "Toward a Theory of International Currency." *The Review of Economic Studies* 60 (2): 283–307. doi:10.2307/2298058.

have an incentive to choose the currency that will entail the smallest difference between the price at which it can be obtained and the price at which it can be sold (the so-called 'bid-ask spread', a proxy for a currency's liquidity). As argued by Kindleberger, the main determinant of the latter is market size, or, by definition, a function of the choice of others to be willing to hold that same currency. This is bound to produce network effects: the utility of a currency will increase with the degree to which it is adopted internationally. The latter does not need to imply the inevitable evolution towards one currency (although, in Kindleberger's thinking, that is what full efficiency implies),[10] but, empirically at least, it certainly means that "the number of currencies used internationally is smaller than the number of existing currencies".[11] Put differently, the aforementioned pyramid is the structural expression of currency competition, the outcome of which translates into a crowding-out of lesser-liquid currencies to the advantage of more readily accepted 'vehicle' ones.[12]

Exploring the latter in an empirical way for the late nineteenth century is no sinecure, for the simple reason that bid-ask spread data are mostly unavailable. Flandreau and Jobst know this, yet have found an ingenious roundabout. They notice that the quotation of a currency in a foreign exchange market should be taken as an indication that 1) there is a sizeable or critical demand for that currency in the respective market and 2) that this demand is predicated upon its liquidity only and not some extraneous element as, for instance, the tyranny of distance. The latter is important: when bankers in a certain center did not draw on another center, it is not because they *could* not; it was rather because they *would* not. From this it follows that the "variable 'quoted/not quoted' is therefore essentially an index of the bid-ask spread, and thus a

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[10] In his own words: "World efficiency is achieved when all countries learn the same second language". Kindleberger, Charles Poor. 1967. *The Politics of International Money and World Language*. International Finance Section, Department of Economics, Princeton University. https://www.princeton.edu/~ies/IES_Essays/E61.pdf. P. 9.
[11] Flandreau, Marc, and Clemens Jobst. 2009. "The Empirics of International Currencies: Network Externalities, History and Persistence." *The Economic Journal* 119 (537): 643–64. doi:10.1111/j.1468-0297.2009.02219.x. P. 645.
[12] For a game-theoretical exploration of the latter, see: Matsuyama, Kiminori, Nobuhiro Kiyotaki, and Akihiko Matsui. 1993. "Toward a Theory of International Currency." *The Review of Economic Studies* 60 (2): 283–307. doi:10.2307/2298058.

measure of liquidity."[13] This does, among others, corroborate their mapping of monetary relationships in the period (cf. supra).

It also allows for the construction of a model. On the basis of the specification of both a) economic *policy performance factors* (concretely, the gold standard as a currency regime) and b) *friction factors* (inventory costs, i.e. costs related to holding liabilities denominated in a currency), Flandreau and Jobst estimate the relationship between the availability of a quote on the one hand and the value it creates for its users, on the other. The findings are pertinent, and confirm the intuition of the transaction cost approach. They report that friction factors in particular turn out to perform well.[14] Low short term interest rates in the issuing country are consistently correlated with the probability of a currency being quoted internationally; geographical proximity and the existence of bilateral trade too are relatively reliable predictors of a currency's international circulation. Curiously, macroeconomic policy variables are *not* univocally strong determinants. In many cases, the adoption of the gold standard even turns out to be negatively correlated to monetary leadership. We will return to this issue in a minute.

For now, it is important to remember that liquidity and prestige are related in a way which logicians and graph theoreticians would identify as circular causality. Liquidity (expressed in the form of low short interest rates) is a strong determinant of monetary leadership, as historical research preempted long ago:[15] clearly, the fact that a

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[13] Flandreau, Marc, and Clemens Jobst. 2005. "The Ties That Divide: A Network Analysis of the International Monetary System, 1890–1910." *The Journal of Economic History* 65 (04): 977–1007. doi:10.1017/S0022050705000379. P. 983.

[14] Flandreau, Marc, and Clemens Jobst. 2009. "The Empirics of International Currencies: Network Externalities, History and Persistence." *The Economic Journal* 119 (537): 643–64. doi:10.1111/j.1468-0297.2009.02219.x. P. 650.

[15] This has been the tenet of a research strand set out by Nishimura Shizuya, and followed up by several of his colleagues: Nishimura, Shizuya. 1971. *The Decline of Inland Bills of Exchange in the London Money Market, 1855-1913*. London: Cambridge University Press. Suzuki Toshio has famously argued that it was the liquidity of the London money market in which Japanese policy-makers wanted to tap: Suzuki, Toshio. 1994. *Japanese Government Loan Issues on the London Capital Market 1870-1913*. First Edition. London ; Atlantic Highlands, NJ: Athlone Press; Suzuki, Toshio. 2002. "Japanese Government Loan Issues on the London Capital Market During the Interwar Period." In *The History of Anglo-Japanese Relations, 1600–2000*, edited by Janet E. Hunter and S. Sugiyama, 183–218. The History of Anglo-Japanese Relations, 1600–2000. Palgrave Macmillan UK.

currency can be bought and sold at prices with only a minimal differential makes it an obvious choice for all market participants. But causality also ran and runs the other way: "[i]nterest rates of leading currencies were lower because lots of agents were using them so that their currencies were more likely quoted abroad and this further strengthened their leadership".[16] Note thereby that this circularity is exactly the stickiness or persistence one would expect to be a characteristic of leading currencies. As Flandreau and Jobst do not fail to note, international monetary competition will lead to an equilibrium that *outlasts the equilibrium that would be warranted in case currency competition would be history-* (i.e. observer-) *free*.

Ranald Michie's explanation of the city of London's consistent preeminence as a global money market, including after the demise of Britain's empire, is a variation on this theme.[17] He speaks of centrifugal and centripetal forces that transcended the inner dynamics of the financial center. What made London thrive was mostly the choice of banks from around the world to go through the trouble of setting up branches there, and maintain correspondent relationships with London-based banks. At the end of the day, they begot most of the improvement of borrowing and lending facilities, the expansion of available funds, and ever newer facilities for employing them remuneratively.[18] London's record was nowhere short of dazzling. Michie estimates that the annual turnover of bills in the City grew from £425 million in 1840 to a whopping £2,000

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[16] Flandreau, Marc, and Clemens Jobst. 2009. "The Empirics of International Currencies: Network Externalities, History and Persistence." *The Economic Journal* 119 (537): 643–64. doi:10.1111/j.1468-0297.2009.02219.x. P. 653.

[17] Michie, Ranald. 2012. "City of London as a Centre for International Banking: The Asian Dimension in the Nineteenth and Twentieth Centuries." In *The Origins of International Banking in Asia*, edited by Shizuya Nishimura, Toshio Suzuki, and Ranald Michie. Oxford University Press. P. 29. http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199646326.001.0001/acprof-9780199646326-chapter-2.

[18] Idem, p. 18. I have also greatly benefited from recent research from Sarah Cochrane: Cochrane, Sarah. 2009. *Explaining London's Dominance in International Financial Services, 1870-1913*. Department of Economics Discussion Paper Series 455. Department of Economics, University of Oxford. http://www.economics.ox.ac.uk/research/WP/pdf/paper455.pdf.

million in 1913. In that very year, two thirds of the bills circulating there were on foreign account.[19]

It will be obvious that the emerging dollar[20] and the city of New York faced considerable impediments when attempting to dethrone the British pound and the city of London from their position of privilege. The greenback carried the burden of its past relative illiquidity and had to gain 'momentum' in order to catch up with and replace a former leading currency. Typically, only the catastrophic event that was World War I tilted the balance to its favour. As in the case of other emerging currencies, the aforementioned circularity thus operates with a time lag: popularity and status typically lag behind what the effective or 'real' liquidity might command at a certain time.[21]

4. The Peripheral Predicament

Our analysis, however, is not so much concerned with upcoming currencies as with those that have been left out as the result of international competition. Does the transaction cost approach, conversely, contain hints with respect to possible remedies for a low international ranking? Is it possible to hack liquidity concerns and boost prestige as an emerging or vehicle currency, or at least alleviate the symptoms of low liquidity, as there are: exchange risk premia, loan conditionality, and so on?

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[19] Michie, Ranald. 2012. "City of London as a Centre for International Banking: The Asian Dimension in the Nineteenth and Twentieth Centuries." In *The Origins of International Banking in Asia*, edited by Shizuya Nishimura, Toshio Suzuki, and Ranald Michie. Oxford University Press. P. 29. http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199646326.001.0001/acprof-9780199646326-chapter-2. P. 17.

[20] For a typical analysis, see: Eichengreen, Barry, and Marc Flandreau. 2009. "The Rise and Fall of the Dollar (or When Did the Dollar Replace Sterling as the Leading Reserve Currency?)." *European Review of Economic History* 13 (3): 377–411. doi:10.1017/S1361491609990153.

[21] Flandreau and Jobst express this time-lag in terms of the 'liquidity schedule' and 'popularity schedule' that differentiate in the process of currency competition. Flandreau, Marc, and Clemens Jobst. 2009. "The Empirics of International Currencies: Network Externalities, History and Persistence." *The Economic Journal* 119 (537): 643–64. doi:10.1111/j.1468-0297.2009.02219.x. P. 656-661.

Authors working in the 'original sin' literature have tended to answer the above questions with a tentative 'yes'. The key, they argue, is the adoption of credible institutions. Admittedly, these have a price. The adoption of a peg to a core currency practiced by a wide range of (semi-)peripheral countries these days or its alternative, debt rationing, are second-best options. Defending the peg at the time of an economic downturn amounts to forsaking the possibility to dampen negative domestic effects by adjusting the exchange rate, for instance; restrictive measures (the 'cold turkey' approach to foreign capital), on the other hand, can be detrimental to a country's growth, or may even invite outright recession in times of crisis. And yet, both the so-called 'fear-of-floating' and varieties of debt abstinence are believed to be sensible and may be effective. In the case of Chile, the latter has been described as a successful way of insuring against an acute drought of capital inflows in terms of crisis (a 'sudden stop').[22] It is widely, and somewhat paternalistically, cited as the one country that set itself apart from the Latin-American club of countries with 'weak institutions'.[23]

Historically, however, the evidence in favor of 'strong institutions' is much thinner. As already pointed out before, Flandreau and Jobst find that gold standard adoption was mostly negatively related to currency status; in other words, it was not that adopting the gold standard bought instant credibility. This is in tune with earlier findings. Gold standard adoption reportedly also played no significant role in a country's borrowing cost; it was a 'veil', a 'thin film' over other, deeper fundamentals, and its

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[22] Eichengreen, Barry, Ricardo Hausmann, and Ugo Panizza. 2007. "Currency Mismatches, Debt Intolerance, and the Original Sin: Why They Are Not the Same and Why It Matters." In *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences*, 121–70. University of Chicago Press. http://www.nber.org/chapters/c0150.pdf. Compare as well: Caballero, Ricardo J., Kevin Cowan, and Jonathan Kearns. 2005. "Fear of Sudden Stops: Lessons From Australia and Chile." *The Journal of Policy Reform* 8 (4): 313–54. Gallego, Francisco A., and F. Leonardo Hernández. 2003. "Microeconomic Effects of Capital Controls: The Chilean Experience during the 1990s." *International Journal of Finance & Economics* 8 (3): 225–53. doi:10.1002/ijfe.207.doi:10.1080/13841280500387141.

[23] The typical antagonist is Argentina. Izquierdo, Alejandro. 2002. "Sudden Stops, the Real Exchange Rate and Fiscal Sustainability in Argentina." *World Economy* 25 (7): 903–23. doi:10.1111/1467-9701.00471.

glitter did not suffice to lure the discerning investor.[24] In the Japanese case, country risk even jumped after gold standard adoption (1897): the country faced yields for its bond flotations that were *higher* than before the monetary reform effort, i.e. when Japan was still on an assumedly less credible silver standard.[25]

This would seem to lead to a few obvious questions. Why, given this evidence, would peripheral countries choose gold standard adoption in the first place? The answer to that has been hinted to earlier. Fixing the domestic currency to gold was painful, but floating could be deadly, as it most probably meant being choked off from the liquidity of the core capital markets that was prerequisite for the periphery's development.

And yet, this cannot be the whole story. We possess, for instance, evidence of widespread use of 'exchange clauses' that could be added to international bond issues.[26] In principle, at least, this would make it possible for peripheral countries to float their domestic currencies and, at the same time, service one's debt at an agreed rate, i.e. in order not to alarm the risk averse foreign investor, as contemporaries liked to describe it. So why would their proliferation go hand-in-hand with the practice of gold pegging in the second half of the nineteenth century? Flandreau and Bordo put it more poignantly: "Fully comprehending the logic of these gold clauses is a theoretical challenge [...]. It is

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[24] Flandreau, Marc, and Frederic Zumer. 2004. *The Making of Global Finance 1880-1913*. Organization for Economic Cooperation & Devel.; in a very similar example, see: Ferguson, Niall, and Moritz Schularick. 2012. "The 'Thin Film of Gold': Monetary Rules and Policy Credibility." *European Review of Economic History* 16 (4): 384–407. doi:10.1093/ereh/hes006. Factually, this is a refutation of the older view that the gold standard functioned as a 'seal of approval' that provided the direly needed credibility. For an explanation of the latter, see: Bordo, Michael D., and Hugh Rockoff. 1996. "The Gold Standard as a 'Good Housekeeping Seal of Approval.'" *The Journal of Economic History* 56 (2):389–428. http://www.jstor.org/stable/2123971.

[25] Mitchener, Kris James, Masato Shizume, and Marc D. Weidenmier. 2010. "Why Did Countries Adopt the Gold Standard? Lessons from Japan."*The Journal of Economic History* 70 (01): 27–56. doi:10.1017/S0022050710000045. Esp. P. ???

[26] Flandreau, Marc, and Nathan Sussman. 2005. "Old Sins: Exchange Clauses and European Foreign Lending In the Nineteenth Century." In *Other People's Money: Debt Denomination and Financial Instability in Emerging Market Economies*., by Barry Eichengreen and Ricardo Haussman. Chicago: University of Chicago Press. http://chicago.universitypressscholarship.com/view/10.7208/chicago/9780226194578.001.0001/upso-9780226194554-chapter-7. Apparently, the use of exchange clauses had originally been probed by the Rothschilds, but quickly proliferated.

not clear, for instance, why investors should have preferred a lower exchange rate risk—but with a greater default risk when exchange rate crises occurred—to a higher exchange rate risk but a lower risk of default."[27]

We believe that the notion of passing on the cost of managing exchange risk to the issuing governments (pegging as a loan conditionality, i.e. a cost incurred in order to protect oneself against an uncertain loss)[28] provides potent clues. Although it seems counterintuitive, especially to people from the economics tradition, insurance is thus treated as equivalent to a *regulatory technology*, a way to *induce* risk-reducing behavior rather than the opposite. As has been argued by others,[29] the insurer (in this case, the underwriting institution) must in this set-up be thought of as an entity doing the job of collecting and administering information about risk. It had an incentive for standard setting and implementing safety regulations (for instance through conditionalities as, in our case, macro-economic practices) because of competition. Especially for prestigious underwriters, the aim was to bring down the risk premia for its customers across the board, e.g. by carefully guarding the nature of its clientele (in a very direct case, by refusing to insure), differentiating risk premia and so on. Only thus can he/she guarantee the latter constant, and relative low-cost services. The insured, on the other hand, were incentivized against burning down the house, if they were to maintain access to a club of trustworthy customers.

Economic historians have realized that risk is a profitable business since long ago. Famously, competition for 19th century sovereign debt underwriting was fierce. But importantly, we also know of the information-heavy duties of contemporary underwriters. Although still overlooked or brushed aside in large swaths of the

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[27] Bordo, Michael D., and Marc Flandreau. 2003. "Core, Periphery, Exchange Rate Regimes, and Globalization." *NBER*, January, 417–72. http://www.nber.org/chapters/c9595. P. 437.
[28] For an analysis of the cost in the context of the adoption of the gold standard by Japan, see: See: Schiltz, Michael. 2012. "Money on the Road to Empire: Japan's Adoption of Gold Monometallism, 1873–971." *The Economic History Review* 65 (3): 1147–68. doi:10.1111/j.1468-0289.2011.00619.x.
[29] Ben-Shahar, Omri, and Kyle Logue. 2012. "Outsourcing Regulation: How Insurance Reduces Moral Hazard." *Michigan Law Review* 111 (2): 197–248. http://repository.law.umich.edu/mlr/vol111/iss2/2.

literature, monetary reform efforts in the periphery —not accidentally all at the end of the nineteenth century— were in many cases engineered or overseen by advisers from core countries. There exist, in other words, (semi-)colonial aspects to the latter.[30] Late nineteenth and early twentieth century observers were aware of this but their analyses were forgotten for many decades; then their ideas had to be reinvented.[31]

DeCecco was arguably the first to rediscover that the establishment of a British-led exchange standard in India was factually aimed at bolstering the imperial core.[32] The finding sheds a rather different light on Keynes' dictum that the rupee was a 'gold note printed on silver'.[33] Balachandran has argued along similar lines for the interwar period.[34] With regard to U.S. money doctoring around 1900 and the establishment of the U.S. National Monetary Commission (1908), the evidence points to a similar rationale.[35] When discussing Japan, Metzler and Bytheway have made it very clear that the vision of the gold standard as an imperial device was shared by all the key

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[30] See, as well: Flandreau, Marc, ed. 2003. *Money Doctors: The Experience of International Financial Advising, 1850-2000*. Routledge International Studies in Money and Banking 26. London ; New York: Routledge.
[31] See, for example the works of Kyoto economist Matsuoka Koji: 松岡孝児. 1936. 金爲替本位制の研究. 日本評論社. http://ci.nii.ac.jp/ncid/BN13264088; Matsuoka, Kôji. 1938. *L'Etalon de change or en Extrême-Orient, par Kôji Matsuoka,...* Paris; Tôkyo: P. Geuthner ; Mitsukoshi.
[32] De Cecco, Marcello. 1975. *Money and Empire: The International Gold Standard, 1890-1914*. Totowa, N.J: Rowman and Littlefield. Michie is more reserved: "India was drawn into an imperial connection that strengthened the position of London as a financial centre." Michie, Ranald. 2012. "City of London as a Centre for International Banking: The Asian Dimension in the Nineteenth and Twentieth Centuries." In *The Origins of International Banking in Asia*, edited by Shizuya Nishimura, Toshio Suzuki, and Ranald Michie. Oxford University Press. http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199646326.001.0001/acprof-9780199646326-chapter-2. P. 23.
[33] Keynes, John Maynard. 1913. *Indian Currency and Finance*. London: Macmillan and Co. P. 37.
[34] Balachandran, G. 1996. *John Bullion's Empire: Britain's Gold Problem and India between the Wars*. London Studies on South Asia 10. Richmond, Surrey: Curzon.
[35] Compare, for an overview of primary sources: Mitchell, Wesley C. 1911. "The Publications of the National Monetary Commission." *The Quarterly Journal of Economics* 25 (3): 563–93. doi:10.2307/1883616. Emily Rosenberg should be credited for her research into the history and development of dollar diplomacy: Rosenberg, Emily S. 1985. "Foundations of United States International Financial Power: Gold Standard Diplomacy, 1900-1905." *The Business History Review* 59 (2): 169–202. doi:10.2307/3114929; Rosenberg, Emily S. 2003. *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900-1930*. American Encounters/global Interactions. Durham: Duke University Press.

policy players.[36] And recently, Schiltz demonstrated how a similar understanding of the gold standard by Japanese contemporaries were behind frantic attempts to set up *yen*-based gold exchange systems around North- and South-East Asia.[37]

Pointing out this imperial dimension may seem a trivial addition to many, but is nevertheless crucial as it upsets a commonly held misunderstanding with respect to the relationship between gold(-exchange) standard adoption and integration into the world economy: "[F]ixed exchange rate regimes were not in the nineteenth century an instrument for financial integration .... [G]lobalization in the nineteenth century caused the adoption of the gold standard, rather than the other way round."[38] Put yet differently, *the periphery had already been financially integrated*, albeit not perfectly. The late nineteenth century flurry with exchange rate regime choice and the consequent 'scramble for gold' are a *product* of globalization, an indication of its fostering, rather than the expression of the desire to become part of it.

5. The Bell Jar Revisited

This peculiar and important core-periphery dynamic is of relevance to yet another finding by Flandreau and Jobst, which bears directly upon all following chapters. It can be traced visually in Fig. 1:

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[36] Bytheway, Simon James. 2005. 日本経済と外国資本—1858-1939. 東京: 刀水書房. Metzler, Mark. 2006. *Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan*. Twentieth-Century Japan 17. Berkeley: University of California Press. Bytheway, Simon James, and Mark Metzler. 2016. *Central Banks and Gold: How Tokyo, London, and New York Shaped the Modern World*. Ithaca ; London: Cornell University Press.
[37] Schiltz, Michael. 2012. *The Money Doctors from Japan: Finance, Imperialism, and the Building of the Yen Bloc, 1895-1937*. Harvard University Asia Center.
[38] Bordo, Michael D., and Marc Flandreau. 2003. "Core, Periphery, Exchange Rate Regimes, and Globalization." *NBER*, January, 417–72. http://www.nber.org/chapters/c9595. P. 424-426.

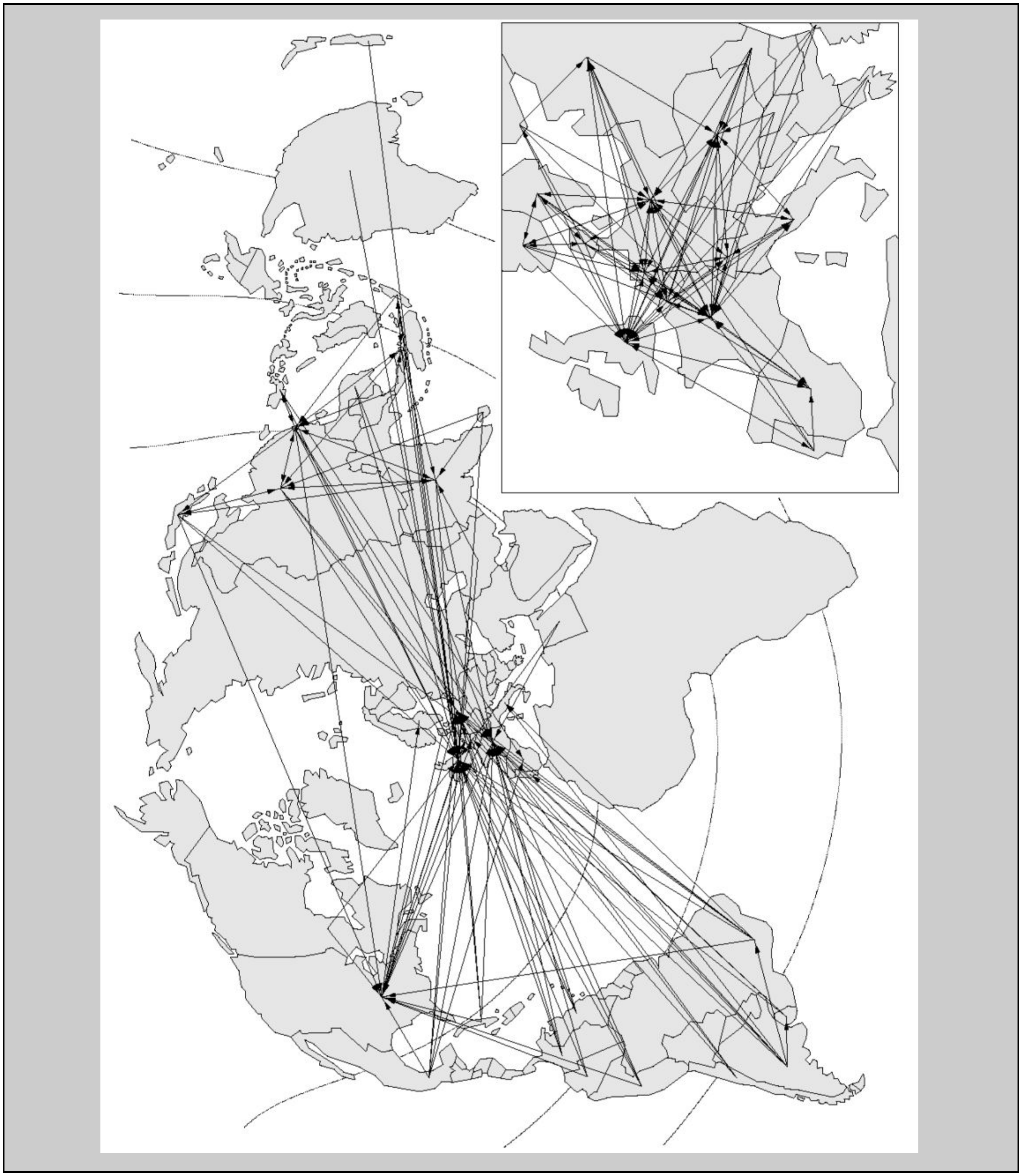

Fig. 1: “Who Quotes Whom in 1900.” Source: Flandreau, Marc, and Clemens Jobst. 2005. “The Ties That Divide”, P. 993.

Their paper identifies the phenomenon as follows: : “[We find the existence of an] Asian subgroup within the periphery, consisting of China, Hong Kong, British India, Japan, and the Strait Settlements (Singapore). Although these countries are clearly peripheral in their relations with the key and the intermediate group, they differ from the other peripheral countries by being connected among themselves. This [...] marks a clear contrast to Latin America, Australasia, or the Balkans, which are exclusively oriented towards Europe”.[39]

Students of Asian history may see a more or less immediate parallel with a notion that is by now more or less accepted in the field. We will call it the Sugihara conjecture, after Sugihara Kaoru’s original coining of the term.[40] It refers to the fact that intra-Asian trade grew considerably in the period between 1800-1913 (i.e. long before the 1870s!), allegedly due to an impetus from the Industrial Revolution and the regime of colonial free trade.[41] Sugihara has furthermore noticed the peculiarities of the latter. Whereas African and Southern-American countries were turned into ‘enclave-economies’ that had linkages with the core yet not among each other, Asia had apparently developed a region-wide division of labor, and rich intra-regional linkages.

In later paragraphs, we will explore what is behind the apparent anomaly of peripheral currencies quoting each other. First, we should clear up the identity of the quoters.

6. The ‘International Banks’

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[39] Flandreau, Marc, and Clemens Jobst. 2005. “The Ties That Divide: A Network Analysis of the International Monetary System, 1890–1910.” *The Journal of Economic History* 65 (04): 977–1007. doi:10.1017/S0022050705000379. P. 997.

[40] 杉原薫. 1985. “アジア間貿易の形成と構造 (近代アジア貿易圏の形成と構造 : 19世紀後半～第一次大戦前を中心に).” 社會經濟史學 51 (1): 17–53.http://ci.nii.ac.jp/naid/110001213535. The *locus classicus* remains: 杉原薫. 1996. アジア間貿易の形成と構造. ミネルヴァ書房. This has given rise to a school of Japanese economic historians looking into the phenomenon of a so-called Asian trade order, in which the role of mostly British capitalism is preeminent. References are too numerous to include.

[41] Due to the labor-intensive nature of production this Europe-Asia nexus caused, several authors have referred to it as an ‘industrious revolution’. For a discussion of the history of the term, see: Vries, Jan de. 2008. *The Industrious Revolution: Consumer Behavior and the Household Economy, 1650 to the Present*. Cambridge University Press. Pp. 78ff.

Is it possible that Flandreau and Jobst discovered the financial corollary (banks) of Sugihara's intra-Asian trade sphere? There are are more than a few reasons to believe so. First and foremost, we know of a category of institutions that, since the early days of Western trade contacts with Northeast and Southeast Asia, were mandated with trade finance. These were the exchange banks, or, as referred to by Baster, the *international banks*.[42] Located in the many port cities[43] [44] (Flandreau/Jobst grouped the exchange centers by country, which has the unfortunate effect of obfuscating the maritime location of major exchange centers in Asia), their business was broadly confined to:

- the sale, for local currency, of bank drafts or telegraphic transfers to Asian clients, who needed the latter to make remittances to Western Europe (and, later, the United States) – in the bank's balance sheet, these are so-called bills payable (B/P), booked under liabilities; and
- the purchase of bills from Asian exporters, and drawn on European centers, for instance London. These bills represented Asian exports to Europe, and were to be collected for payment there (B/C bills for collection, booked under assets)

Although, at the outset, most of the exchange banks were British banks granted a Royal Charter (or the equivalent thereof), British monopoly in exchange banking had eroded by the 1890s.[45] Whatever be the incentive or protocol behind their establishment, these

[42] Baster, Albert Stephen James. 1935. *The International Banks*. London: P. S. King & son, ltd.
[43] Webster, Anthony, Ulbe Bosma, and Jaime de Melo, eds. 2015. *Commodities, Ports and Asian Maritime Trade Since 1750*. 1st ed. 2015 edition. Palgrave Macmillan.
[44] This has led some authors to refer to the region as the "Asian Mediterranean": Gipouloux, François. 2011. *The Asian Mediterranean: Port Cities and Trading Networks in China, Japan and South Asia, 13th-21st Century*. Cheltenham, Uk: Edward Elgar; Schottenhammer, Angela, ed. 2008. *The East Asian Mediterranean: Maritime Crossroads of Culture, Commerce and Human Migration*. East Asian Economic and Socio-Cultural Studies. East Asian Maritime History 6. Wiesbaden: Harrassowitz Verlag; Schottenhammer, Angela, ed. 2005. *Trade and Transfer across the East Asian "Mediterranean."* East Asian Economic and Socio-Cultural Studies. East Asian Maritime History 1. Wiesbaden: Harrassowitz.
[45] Nishimura, Shizuya. 2012. "British International Banks in Asia, 1870–1914: An Introductory Essay." In *The Origins of International Banking in Asia*, edited by Shizuya Nishimura, Toshio Suzuki, and Ranald C. Michie, 55–79. Oxford University Press. http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199646326.001.0001/acpro

institutions set themselves apart by being mostly, if not exclusively, engaged in the business of foreign exchange,[46] as can be concluded from the description above. For this reason, they were the producers of the very exchange quotations of the kind of which Flandreau and Jobst could draw on for their database (Fig. 2).

Fig. 2: An example of Yokohama Specie Bank Daily Exchange Quotations, "Yokohama, Saturday, 27th November 1926"; Collection Credit Lyonnais.[47]

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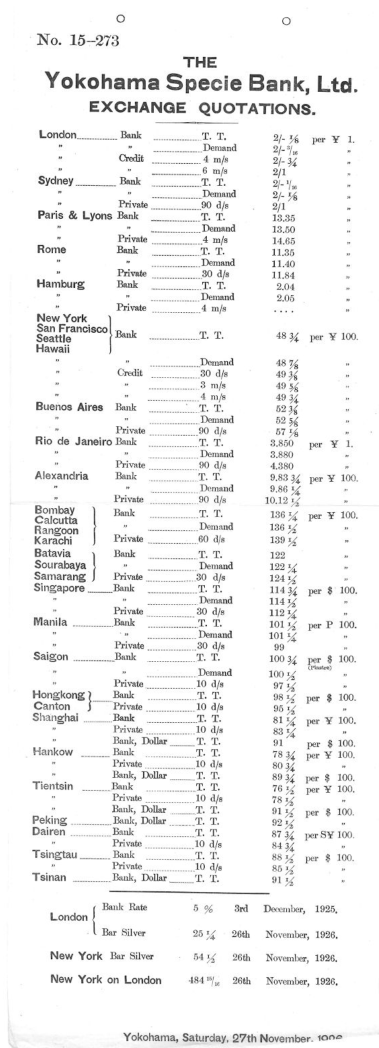
f-9780199646326-chapter-3. Kawamura, Tomotaka. 2015. "British Exchange Banks in the International Trade of Asia from 1850 to 1890." In *Commodities, Ports and Asian Maritime Trade Since 1750*, edited by Ulbe Bosma and Anthony Webster, 179–97. Cambridge Imperial and Post-Colonial Studies Series. Palgrave Macmillan UK. http://link.springer.com/chapter/10.1057/9781137463920_10.

[46] "[An exchange bank] may engage in ancillary businesses such as retail banking for the residents of a port city [...] or flotation of loans for the governments of the host countries. But the core of its business must be foreign exchanges and the financing of international transactions." Nishimura, Shizuya. 2012. "British International Banks in Asia, 1870–1914: An Introductory Essay." In *The Origins of International Banking in Asia*, edited by Shizuya Nishimura, Toshio Suzuki, and Ranald C. Michie, 55–79. Oxford University Press. http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199646326.001.0001/acprof-9780199646326-chapter-3. P. 55.

[47] Judging from the heading '15-273', we can infer that this (1926) is the 15th year to distribute, in an official way, YSB's quotations among several of the world's central institutions dealing in foreign exchange transactions (e.g. Crédit Lyonnais). This is corroborated by the existence of a series of 2 reports dealing with YSB exchange quotations, exactly from 1913 on. See: Schiltz, Michael. 2016. "Monthly Records of Y.S.B Exchange Quotations with Appendices of Silver Prices in London and New York, 1913-1926. "https://figshare.com/articles/Monthly_Records_of_Y_S_B_Exchange_Quotations_with_Appendices_of_Silver_Prices_in_London_and_New_York_1913-1926/3976737; Schiltz, Michael. 2016. "Monthly Records of Y.S.B.exchange Quotations with Appendices of Silver Prices in London & New York. vol.2, 1926-1938. "https://figshare.com/articles/Monthly_records_of_Y_S_B_exchange_quotations_with_appendices_of_silver_prices_in_London_New_York_vol_2_1926-1938_/3976743.



No. 15–273

THE

Yokohama Specie Bank, Ltd.

EXCHANGE QUOTATIONS.

London	Bank	T. T.	2/- 1/8	per ¥ 1.
"	"	Demand	2/- 3/16	"
"	Credit	4 m/s	2/- 3/4	"
"	"	6 m/s	2/1	"
Sydney	Bank	T. T.	2/- 1/16	"
"	"	Demand	2/- 1/8	"
"	Private	90 d/s	2/1	"
Paris & Lyons	Bank	T. T.	13.35	"
"	"	Demand	13.50	"
"	Private	4 m/s	14.65	"
Rome	Bank	T. T.	11.35	"
"	"	Demand	11.40	"
"	Private	30 d/s	11.84	"
Hamburg	Bank	T. T.	2.04	"
"	"	Demand	2.05	"
"	Private	4 m/s	....	"
New York, San Francisco, Seattle, Hawaii	Bank	T. T.	48 3/4	per ¥ 100.
"	"	Demand	48 7/8	"
"	Credit	30 d/s	49 3/8	"
"	"	3 m/s	49 5/8	"
"	"	4 m/s	49 3/4	"
Buenos Aires	Bank	T. T.	52 3/8	"
"	"	Demand	52 5/8	"
"	Private	90 d/s	57 1/8	"
Rio de Janeiro	Bank	T. T.	3.850	per ¥ 1.
"	"	Demand	3.880	"
"	Private	90 d/s	4.380	"
Alexandria	Bank	T. T.	9.83 3/4	per ¥ 100.
"	"	Demand	9.86 1/4	"
"	Private	90 d/s	10.12 1/2	"
Bombay, Calcutta, Rangoon, Karachi	Bank	T. T.	136 1/4	per ¥ 100.
	"	Demand	136 1/2	"
	Private	60 d/s	139 1/2	"
Batavia, Sourabaya, Samarang	Bank	T. T.	122	"
	"	Demand	122 1/4	"
	Private	30 d/s	124 1/2	"
Singapore	Bank	T. T.	114 3/4	per $ 100.
"	"	Demand	114 1/2	"
"	Private	30 d/s	112 1/4	"
Manila	Bank	T. T.	101 1/2	per P 100.
"	"	Demand	101 1/4	"
"	Private	30 d/s	99	"
Saigon	Bank	T. T.	100 3/4	per $ (Piastre) 100.
"	"	Demand	100 1/2	"
"	Private	10 d/s	97 1/2	"
Hongkong, Canton	Bank	T. T.	98 1/2	per $ 100.
	Private	10 d/s	95 1/2	"
Shanghai	Bank	T. T.	81 1/4	per ¥ 100.
"	Private	10 d/s	83 1/4	"
"	Bank, Dollar	T. T.	91	per $ 100.
Hankow	Bank	T. T.	78 3/4	per ¥ 100.
"	Private	10 d/s	80 3/4	"
"	Bank, Dollar	T. T.	89 3/4	per $ 100.
Tientsin	Bank	T. T.	76 1/2	per ¥ 100.
"	Private	10 d/s	78 1/2	"
"	Bank, Dollar	T. T.	91 1/2	per $ 100.
Peking	Bank, Dollar	T. T.	92 1/2	"
Dairen	Bank	T. T.	87 3/4	per S¥ 100.
"	Private	10 d/s	84 3/4	"
Tsingtau	Bank	T. T.	88 1/2	per $ 100.
"	Private	10 d/s	85 1/2	"
Tsinan	Bank, Dollar	T. T.	91 1/2	"

London	Bank Rate	5 %	3rd	December, 1925.
London	Bar Silver	25 1/4	26th	November, 1926.
New York	Bar Silver	54 1/2	26th	November, 1926.
New York on London		484 15/16	26th	November, 1926.

Yokohama, Saturday, 27th November, 1926

Second, there is a compelling logical argument for the above. After all, given the peripheral nature of the currencies involved, and their implied low liquidity, there does not appear to be an inherent incentive to hold liabilities denominated in them, especially not after the 1870s. Does the latter, especially in the aftermath of the unpredictable 1870s, not lead to the conclusion that quoting institutions had, in one way or another, to be specializing in trade insurance?

This was indeed the case. Just as the European periphery in the late eighteenth century,[48] large swaths of the densely populated regions of Northeast and Southeast Asia saw their economies flooded and dominated by institutions, financial technologies and products from the liquid European core countries, especially related to trade finance (or, in other words, short-term financing).[49] The world's money was not so much the British pound, but the 'bill on London'. In a process that started before the 1850s, financial capitalism had imposed itself from above, and reinforced a core/periphery ('treaty port' versus *Hinterland*) distinction in the Asian host country. This was the almost natural follow-up of the creation of trading posts, or 'entrepôts', associated with mostly British free-trade imperialism.[50] The very point is that, as jurisdictionally and economically demarcated units, they did not need the presence of well-organized domestic credit markets, even if they would have existed (we know that they either did not, or lacked the depth of the London market). An already global market for cheap short term capital was thriving, and it would be up to the periphery's *Hinterland* and institutions to catch up with the latter.[51] [52]

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[48] Flandreau, Marc, Christophe Galimard, Clemens Jobst, and Pilar Nogués-Marco. 2009. "Monetary Geography before the Industrial Revolution." *Cambridge Journal of Regions, Economy and Society* 2 (2): 149–71. doi:10.1093/cjres/rsp009.

[49] Compare, for instance: Webster, Anthony. 2006. "The Strategies and Limits of Gentlemanly Capitalism: The London East India Agency Houses, Provincial Commercial Interests, and the Evolution of British Economic Policy in South and South-East Asia 1800–50." *The Economic History Review* 59 (4): 743–64. doi:10.1111/j.1468-0289.2006.00366.x.

[50] Including a comprehensive of sources would be prohibitive. For the sake of brevity, we refer to the existence of a 'Cain/Hopkins paradigm'. The *locus classicus* remains: Cain, P. J., and A. G. Hopkins. 1993. *British Imperialism: Innovation and Expansion, 1688-1914.* London ; New York: Longman.

[51] There are conspicuously few studies on how indigenous institutions dealt with the supra-imposed and evolutionarily superior foreign financial technologies. One seminal example is: Nishimura, Shizuya. 2005. "The Foreign and Native Banks in China: Chop Loans in Shanghai and Hankow before 1914." *Modern Asian Studies* 39 (01): 109–32. doi:10.1017/S0026749X04001404. Kuroda Akinobu's research into complementary currencies appears to hint towards a similar interest, but needs further specification. For a concise introduction, see: Kuroda, Akinobu. 2008. "What Is the Complementarity among Monies? An Introductory Note." *Financial History Review* 15 (1): 7–15. doi:10.1017/S0968565008000024; Kuroda, Akinobu. 2008. "Concurrent but Non-Integrable Currency Circuits: Complementary Relationships among Monies in Modern China and Other Regions." *Financial History Review* 15 (1): 17–36. doi:10.1017/S0968565008000036.

These regions and their currencies were in all possible ways outside of the Braudelian bell jar. Or perhaps we should say, given the existence of long-standing mercantile relationships with the European core countries, that they were included as outsiders —"systems are tested on their margins"[53] is a quote that might have been lifted from Niklas Luhmann's theory of modern world society.[54] Staying with Braudel's preference with topological metaphors, early financial capitalism could be likened to a Klein bottle: a device that draws the outside to its inside, yet that at all times maintains a boundary with the former.

7. Why this book?

The focus of the following chapters is mostly with the history of exchange banking practice in the decades leading up to the development of gold(-exchange) standards in Asia, i.e. 1850-1910. For China, the time span was even longer, as monetary regime change became a real issue only in the 1930s. The period has to a large degree been neglected by financial historians as transitory. The underlying idea of the latter has been that the 'fall of silver', spurred by a series of happenings in Western-Europe (more specifically, France's decision to ration (1873) and later demonetize (1876) silver in the wake of the Franco-Prussian war),[55] was a cataclysmic event that took the credibility of silver with it.

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[52] In our view, Bloomfield has been the first to highlight the role of short-term sovereign borrowing through 'finance bills'. Bloomfield, Arthur I. 1963. *Short-Term Capital Movements under the Pre-1914 Gold Standard*. Princeton Studies in International Finance, no. 11. Princeton, N.J: International Finance Section, Dept. of Economics, Princeton University. Esp. pp. 38ff. We return to this topic in chapter ?????

[53] Bordo, Michael D., and Marc Flandreau. 2003. "Core, Periphery, Exchange Rate Regimes, and Globalization." *NBER*, January, 417–72. http://www.nber.org/chapters/c9595. P. 419.

[54] Luhmann, Niklas. 2012. *Theory of Society, Volume 1*. Translated by Rhodes Barrett. Stanford, California: Stanford University Press; Luhmann, Niklas. 2013. *Theory of Society, Volume 2*. Translated by Rhodes Barrett. Stanford, Calif.: Stanford University Press.

[55] Flandreau, Marc. 1996. "The French Crime of 1873: An Essay on the Emergence of the International Gold Standard, 1870–1880." *The Journal of Economic History* 56 (04): 862–97. doi:10.1017/S0022050700017502.

In this book, we treat that assumption as suspect. As monetary reform became an issue in the latter half of the 1870s (the so-called Lindsay scheme),[56] and took yet another 20 years to be implemented, we believe that the credibility of silver did not go with a boom. Rather, as contemporary observers did not have the benefit of the hindsight, there are reasons to assume they perceived the aftermath of the Franco-Prussian War as a one-off event, after which the gold par of silver would return to the pre-1870s 'normal' —after all, the gold to silver price ratio had been remarkably stable for a long period, and its stability had never commanded any form of international coordination.

The continued depression of silver throughout the 1870s and 1880s certainly worried contemporary observers but did not cause a massive rush away from holding silver liabilities. Silver's confidence crisis was protracted. Overall, it resulted in the occurrence of premia for silver denominated long-term debt (the rupee bonds issued by the Indian government, for instance),[57] but it did not impede contemporaries to 'go long' on silver when the many international conferences or a unilateral policy initiative as the Sherman silver purchase act (1890) promised the reversal of the white metal's fate.

For institutions specializing in the insurance of trade between the Western gold standard countries and Asia's 'realms of silver',[58] the situation must have been precarious. For one, the intuition is that that one should expect managerial problems for those banks who stuck to the old ways and foresaw the mid- to long-term restabilization of the silver price, possibly at a new par. This is borne out by the historical record. Suzuki Toshio, pointing out that the cadre of the once mighty Oriental Banking Corporation had a penchant for bimetallism, has convincingly demonstrated that the bank's failure in 1884 was to a large degree precipitated by the fall of the silver price (yet

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[56] For a discussion, see: Keynes, John Maynard. 1913. *Indian Currency and Finance*. London: Macmillan and Co. Pp. 34ff.

[57] Flandreau, Marc, and Kim Oosterlinck. 2012. "Was the Emergence of the International Gold Standard Expected? Evidence from Indian Government Securities." *Journal of Monetary Economics* 59 (7): 649–69. doi:10.1016/j.jmoneco.2012.09.001.

[58] With a tip of the hat to: Mackenzie, Compton. 1954. *Realms of Silver; One Hundred Years of Banking in the East*. London: Routledge & K. Paul.

another reason was the shortening of bill usance, to which we turn in chapter ????).[59] Although it is difficult to prove that similar reasons were behind the demise of other exchange banks (e.g. the *Comptoir d'Escompte de Paris*), because their records were in most cases lost or destroyed, it remains a compelling explanation.

Some banks, notably the Hongkong and Shanghai Banking Corporation, however, weathered the exchange storm extremely well. This has prompted our second intuition. Given that the track records of several of the most representative exchange banks tended to divert so remarkably, should we not expect to find evidence of furious experiment with financial products and technologies, including perhaps the elusive harbingers of strategies for hedging exchange risk? Unfortunately, the conventional literature on exchange banking has not been very helpful. In many cases company sponsored studies, they have not delved into the intricacies of nineteenth century exchange banking practice.[60] Even Frank King's monumental tetralogy on the history of HSBC does not explore the bank's strategy at hedging exchange risk, the title of the first volume notwithstanding.[61] It is nowadays commonplace to assume that nineteenth century bankers were unaware of hedging technologies.[62] It is in this particular respect that this book attempts to fill a gap.

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[59] Suzuki, Toshio. 2012. "The Rise and Decline of the Oriental Bank Corporation, 1842–84." In *The Origins of International Banking in Asia*, edited by Shizuya Nishimura, Toshio Suzuki, and Ranald C. Michie, 86–106. Oxford University Press. http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780199646326.001.0001/acprof-9780199646326-chapter-4.

[60] One notable exception to the latter is Stuart Muirhead's discussion of banking practice in CMBILC. This account, however, is largely descriptive, i.e. illustrative of individual and non-related instants of aspects of international trade finance; it does not attempt to explore bank management in a systematic, formal way. See: Muirhead, Stuart. 1996. *Crisis Banking in the East: The History of the Chartered Mercantile Bank of India, London, and China, 1853-93*. Aldershot, Hants, England : Brookfield, Vt., USA: Scolar Press ; Ashgate Pub. Co. Esp. chapter 9, "The Mechanics of the Bank's Business, 1854-93", pp. 199-232.

[61] King, Frank H. H., Catherine E. King, David J. S. King, and Frank H. H. King. 1987. *The Hongkong Bank in Late Imperial China, 1864-1902: On an Even Keel*. The History of the Hongkong and Shanghai Banking Corporation v.1. Cambridge [Cambridgeshire] ; New York: Cambridge University Press.

[62] This includes Flandreau: Bordo, Michael D., and Marc Flandreau. 2003. "Core, Periphery, Exchange Rate Regimes, and Globalization." *NBER*, January, 417–72. http://www.nber.org/chapters/c9595. P. 437.

8. Structure of this book

In order to frame silver's prolonged fall from grace after 1873, it is instructive to review the debate on the credibility of bimetallism (chapter 1). We argue that recent revisionist interpretations have been correct. Taking account of abortive European schemes at creating a trade dollar for use within the region, we note that these experiments were bolstered by international conferences. Not only were contemporaries convinced that a worldwide gold standard was infeasible; they saw silver as indispensable from the monetary menu. The latter becomes most obvious from discussions on Indian sovereign debt. British policy makers were obviously aware that borrowing in silver demanded a premium, but seemed confident that the exchange risk associated with a loan in pounds outweighed the former.

Chapter two turns to the implications of the above for trade finance. It turns out that experiment with *financial products* started as early as 1876, yet was initially highly disruptive and damaging to banking practice. The drawing of silver denominated bills for British export finance not only distorted the process through which Eastern exchange bankers traditionally recouped their capital; it also left the banker's position unhedged. The shortening of bill usance, driven by the separate development that was the Suez Canal, exacerbated matters. Eventually, however, experimentation led to success. In particular the creation of 'interest bills' in the 1880s, which concerned a deferred exchange transaction, strongly strengthened the exchange banker's chances of gauging the amount of risk he was taking.

From financial products, the discussion moves on to *managerial practice*. In chapter three, we demonstrate that several bankers had a keen understanding of hedging exchange risk, by setting off the operations of buying and selling bills against each other. Interest bills and the 'even keel' were complementary aspects of the mindset of conservative banking that characterized HSBC at the time, and that was adopted by the Yokohama Specie Bank in the 1890s. Importantly, it also turned out to be a successful recipe; whereas most exchange banks, including the once mighty Oriental Banking Corporation, floundered or even disappeared, HSBC took over the helm. It is safe to assume that, from the 1890s onwards, *all* surviving exchange banks had developed a hedging strategy of some sort. This chapter also discusses the implications of the 'even keel' for branch network growth.

The latter are addressed in the last chapter [...]

The appendices are used to explore several matters of general interest to the discussion. Not in the least, this includes a discussion of the accounting technicalities that had to be considered when constructing the database. Drawing on a range of secondary sources in Japanese, we demonstrate how hedging worked in practice; and we show the peculiar role of finance bills, especially after 1895.

In the conclusion, we hint at venues for further research.

Appendix 1: The 'Asian Mediterranean': the maritime location of major exchange centers in the Intra-Asian Trade Network

Appendix 2: The geographical presence of British and French international banks in Asia in 1870, with indication of dates of establishment of branches or offices; being granted a royal charter (王室特許状 *ōshitsu tokkyojō*) (or equivalent); and location of the Head Office (in bold print).

	Agra Bank	*Oriental Banking Corporation (OBC)*	*Chartered Mercantile Bank of India, London and China (CMBILC)*	*Chartered Bank of India, Australia and China (CBIAC)*	*Hongkong and Shanghai Banking Corporation (HSBC)*	*Comptoir National d'Escompte de Paris (CNEP)*
Year of establishment	1833	1842	1854	1858	1865	1848
Royal Charter		x (1851)	x (1857)	x (1853)	x[63] (1866)	
Europe	**London**, Edinburgh (1861)	**London**	**London**, Edinburgh	**London**	London	**Paris**, Lyon (1868), Marseille (1869), Nantes (1867), London (1867)
India/ Ceylon	Calcutta (1837), Bombay (Mumbai) (1845), Madras (1843), Karachi (1860), Agra, Lahore	Calcutta (1842?), Bombay (Mumbai) (1842?), Madras (1846?), Colombo (1842?), Galle (1869), Kandy (1852?)	Calcutta (1855), Bombay (Mumbai) (1853), Madras, Kakinada, Colombo (1854), Galle, Kandy (1854)	Calcutta (1858), Bombay (1858)	Calcutta (1868), Bombay (1869)	Calcutta (1860), Bombay (1862)
China	Hong Kong, Shanghai	Hong Kong (1845), Shanghai	Hong Kong, Shanghai (1854),	Hong Kong (1859), Shanghai	**Hong Kong** (1864),	Hong Kong (1862?), Shanghai

[63] The Hongkong and Shanghai Banking Corporation was established under Ordinances No. 2 and No. 5, 1866, of the government of Hong Kong; the latter were equivalent to being granted a royal charter.

	(1854)	(1847), Foochow (Fuzhou) (1869)	Fuzhou, Hankow (1855)	(1858), Hankow	Shanghai (1865), Foochow (Fuzhou), Hankow	(1860)
Japan		Yokohama (1864)	Yokohama (1863)		Yokohama (1866)	Yokohama (1867)
Southeast Asia		Singapore (1846)	Singapore (1855), Penang	Singapore (1859), Batavia (1853), Rangoon (1862), Akyab (Sittwe) (1867)	Saigon (1868)	Saigon (1862?)
Australia	Sydney (1862), Melbourne (1864)	Melbourne (1852), Sydney (1852)				
Africa		Mauritius (1852)				Bourbon (Réunion)

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Some caution with respect to the exactitude of the presented dates should apply; for some branches, it was impossible to find a reliable date of establishment.