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The Japanese Currency Policy and the British Banks in Asia in 1870s – 1890s

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I The Silver Dollar and the Japanese Silver Yen in Asia before 1897

In Asia before 1870s, Spanish silver dollars (including Mexican dollars) were the most familiar and influential import from the West. They were widely circulated in Asia from the sixteenth to the middle of the nineteenth century. But they were generally less favoured by most Asian Government, though they were made legal tender in Singapore in 1867. During the 1870s, the value of silver began to depreciate. This meant the opening the "Trade Dollar Era". Western countries began to mint and export silver trade dollars for circulation in silver-using countries. The Hong Kong dollar was minted in 1866, the US trade dollar in 1873, and the British dollar in 1895. They did so because the value of silver in silver-using countries, particularly in China, were not depreciating at the same rate as it was in the Western Countries. So they wanted their own trade dollar to replace Mexican dollars in Asia.¹⁾

As for Japan, the Government wished to stop the large outflow of gold that began after Japanese ports were opened to foreigners by adopting the silver "yen" for the settlement of her foreign trade.

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1) Andrew, A.P., "The End of the Mexican Dollar", *Quarterly Journal of Economics*, 18 (May 1904), pp. 321–56.

Since the opening of the treaty ports to foreigners in 1858, the Mexican dollar came into circulation in Japan. That coin was of 416 grains, 0.900 silver. And in February 1868, the Japanese Government proclaimed the Mexican dollars to be accepted at the fixed rate at three Japanese new silver "bu" coins to one Mexican dollar.²⁾

In April 1868, the Japanese government bought an British coining mill from Hong Kong through the Oriental Bank to mint new coins, but this machine was burnt before sipping. So a new machine was imported directly from the England. Major William Kinder, the former master of Hong Kong mint, was appointed as the director of the Japanese mint. The Oriental Bank acted as the agent of the Japanese Government in the employment Kinder and nine other European mint engineers.³⁾

After the controversy on which metal should be the standard unit of value, in December 1870 the Japanese government adopted the gold coins for it by the New Coinage Act. The gold coins were made for the legal tender. At the same time, for the payment of the foreign trade or custom duties and taxes in the treaty ports, the Japanese "trade one yen silver coin" was minted. It had a weighing 416 grains equal to that of the Mexican dollar. The term "yen" was said to be taken from the Chinese name "yuan" of the Hong Kong one dollar minted in 1866. Yen silver was regulated with the domestic circulation of gold yen at the ratio of 16.01 to 1, and this ratio was fixed a little lower than the international market ratio at the inauguration of the New Coinage Act of 1871.⁴⁾ After 1875 silver prices began to decline in Europe, whilst that of the silver in Japan was the same as before, so the gold prices in Japan were undervalued. As a consequence, it is estimated that 51.3% of the gold coins minted in Japan were exported from 1871 to 1877.⁵⁾

In 1875 the government decided to change the legal gold-silver parity from 16.01 : 1 to 16.17 : 1 to prevent the outflow of gold coins,⁶⁾ but this change was not effective, and gold coins continued to outflow out of Japan in large quantities because of the legal gold-silver parity was continually lower than in the market.

The silver yen had come to circulate not only in the treaty ports, also abroad, especially in Canton and the Straits Settlement. In Singapore it become the legal tender in 1874.⁷⁾ T.W. Kinder stated on 1874 that "the currency of Japan is becoming more fully recognized abroad".⁸⁾ In May 1878 the silver yen was made the legal tender in any places of Japan.⁹⁾ Hereafter the Japanese stan-

2) Shinjo, Hiroshi, *History of the Yen*, Kobe University Press, 1962, p. 15.

3) Fox, Grace, *Britain and Japan 1858-1883*, Oxford U.P., 1969, pp. 402-4.

4) Shinjo, *op. cit.*, pp. 16-23.

5) Count Matsukata, Masayosi, *Report on the adoption of the gold standard in Japan*, Government Press, Tokyo, 1899, pp. 13-15. This official report is the English version verbatim translated from the Japanese literature: Okura-syo (The Ministry of Finance), *Meiji sanjunen heisei-kaikaku simatsu gaiyo* (Outline of the Processes of Monetary Reform on 1897), Tokyo, 1899.

6) Shinjo, *op. cit.*, pp. 24, 28.

7) Chalmers, Robert, *A History of Currency in the British Colonies*, London, 1894, p. 387.

8) Kinder, T.W., "Report of the Director of the Imperial Mint at Osaka, Japan, for the year ending 31st July 1874", in *Minutes of Evidence taken before the Select Committee on Depreciation of Silver*, London, 1877, pp. 158.

9) Shinjo, *op. cit.*, pp. 28, Matsukata, *op. cit.*, p. 12.

dard system was institutionally the bimetallic standard, but practically the silver standard.

But the Japanese silver yen was received by the merchants with the discount of 0.5–1.5% to the Mexican dollar. In order to facilitate the circulation of the silver yen, in September 1879 the Japanese government declared that silver yen should be accepted on a par with the Mexican dollar.¹⁰⁾ The government needed the assistance from the foreign banks to carry out it. The Hongkong and Shanghai Banking Corporation (HSBC) and the Oriental Bank Corporation accepted this policy, and in return for it the government deposited 300,000 yen to each of the two banks with interest free and for the next three years.¹¹⁾

There were two reasons why foreign banks accepted silver yen. Silver yen being circulated well inside Japan, they found an effective method of receiving silver yen to prevent the loss caused by the depreciation of silver. It was profitable for them to hold silver yen having stable value in Japan in place of depreciating Mexican dollars for settlement the excess import from Japan. And the other reason was that silver yen began to be accepted as a reliable currency in Asian markets, where foreign merchant's interests to trade with Japan was increasing.

Despite the support silver yen received from commercial banks in Hong Kong, Home government in Britain had not always accepted their attitude. The British government rejected the proposal of the governor of Hong Kong, Sir John Pope Hennessy, to make silver yen legal tender which was then backed by Thomas Jackson of the HSBC (at that time, the manager of the Yokohama branch), and the Hong Kong Chamber of Commerce.¹²⁾

While relying on the foreign bankers as for the circulation of silver yen, the Japanese government made efforts to improve the financial instruments for the foreign trade, because the Japanese balance of trade had become worse in 1870s. In 1881 The government entrusted the sum of three million yen to the Yokohama Specie Bank to enable it to discount foreign bills of exchange on the security of exported goods. It aimed at encouraging the direct export and securing specie. But this effort failed because the profits from the direct trade was offset by the depreciation of silver.¹³⁾

By 1890s, large volume of Japanese silver yen was circulating in Hong Kong and Singapore, the former was an entrepôt of southern China, the later was an intermediary market with Europe. The volume of silver yen in circulation roughly estimated from the Japanese consular reports was 500 thousand yen in Hong Kong and 8 million yen in Singapore, while in Japan the sum was estimated only 120 thousand yen.¹⁴⁾

Basically silver yen was exported from Japan to these two ports to settle the unfavorable balance of trade. British banks hold the silver yen and used for the regional transaction. Followingly it

10) Naikaku Kiroku-Kyoku (The Legislative Bureau of Cabinet), *Hôki Bunrui Taizen* (Complete of the classified Statutes), Tokyo, 1890, Vol. 8, p. 220.

11) *ibid.*, pp. 221–6, King, Frank H.H., *The Hong Kong Bank in late Imperial China, 1864–1902*, Cambridge U.P., 1987, p. 288. This operation was reported by the British consul in Japan. See British Parliamentary Papers, *Commercial Report by Her Majesty's Consuls in Japan*, 1879, pp. 8, 31.

12) Gaimu-syo (The Ministry of Foreign Affairs), *Nippon Gaiko Monjo* (Japanese Diplomatic Documents), Tokyo, 1950–, Vol. 11 (for the year 1878), pp. 315–25. See also Fox, *op. cit.*, pp. 408–11.

13) Matsukata, *op. cit.*, pp. 128–9.

14) *ibid.*, pp. 250–53.

passed into the hands of native merchants all over East and Southeast Asia, and was used for transaction or currency speculation. The HSBC had constantly been buying up and storing the silver yen in its specie reserve. The amount held by the HSBC was estimated at 300 thousand yen in the new coins, and that of the Chartered Bank at 200 thousand yen.¹⁵⁾

II The Japanese Adoption of Gold Standard and the Withdrawal of the Silver Yen

Since 1887 it was worried about the influence of the depreciation or fluctuation of the price of silver to the Japanese economy, especially the balance of trade. Although it was not so unfavorable, the price of imports from the gold standard countries was raising. The Japanese government began to prospect the adoption of the gold standard system, and the Commission for Monetary Reform was organized in 1893. The Commission drafted a report in July 1895, but it was ambiguous for the conclusion about the suitable standard system. It was most worried about the creating the gold reserve necessary for the adoption of a gold standard.¹⁶⁾

Coincidentally, the procedure of payment of the indemnity money China was due to Japan for the Sino-Japanese War was consented in October 1895. China had raised governmental loans in Europe to supply the indemnity money. The total amount of indemnity money was 200 million Kuping-Tael silver which was fixed at 575.82 grains of pure silver. Kuping-Tael should be reduced to the standard silver of London. And the amount of each indemnity payment should be reduced into pound sterling at the rate of the price of silver bullion to pound sterling in the London market. The payment began at October 1895, and the real receipt by 1898 had amounted to £38 million (360 million yen).¹⁷⁾

This indemnity money was deposited to the Bank of England by the Japanese government and employed as the specie reserve, for the governmental payments and the settlement of the foreign bill of exchange.¹⁸⁾ Besides, the government brought back this money in gold or silver bullion, gold coin (mainly pound), or exchange operation, so as to store up the gold reserve.¹⁹⁾ To deal with these

15) *ibid.*, pp. 270–1, 282. *The Banker's Magazine* pointed out that “The silver yen... is a great deal more popular outside of Japan than inside and is more frequently to be seen at Hong Kong or Singapore than in Tokyo or Yokohama. ... During these twenty-five years Japan has been furnishing China, Hong Kong, Siam, Singapore and all the rest of her commercial rivals in the Far East with a practically free coinage...” (*The Banker's Magazine*, No. 639, Jun. 1897, p. 897–8).

16) Shinjo, *op. cit.*, p. 75–7.

17) Matsukata, *op. cit.*, pp. 166–173.

18) *ibid.*, pp. 219–225. This governmental reserve was also employed to the cash reserve for the convertible notes of the Bank of Japan, through the following operation; The Japanese government would deposit up to 80 million yen to the Bank of Japan, and the Bank would issue the notes and lend to the government. The interests margin would be 1% per year advantageous to the Bank for the costs of issuing. See *Meiji Zaisei-Shi* (History of the Public Finance in Meiji-Era), 1904, Tokyo, Vol. 2, pp. 570–3. The procedure of this operation was reported in *The Economist*, March 7, 1896, p. 294.

19) *The Banker's Magazine* stated “In collecting gold they [the Japanese] have skilfully and vigorously utilised all the exceptional advantages placed at their command by the Chinese war indemnity” (*The Banker's Magazine*, No. 639, Jun. 1897, p. 884).

accounts the Japanese Ministry of Finance set up the Indemnity Money Fund, and entrusted the operational activity to the Yokohama Specie Bank.

The Coinage Act which adopted the gold standard system was enacted in March 1897. This Act provided that one yen represented 750 milligrams of fine gold new one yen gold coin was exactly half of the weight and fineness of the old one gold coin defined by the former Coinage Act of 1871. That meant the legal gold-silver ratio would change from 16:1 to 32:1 in order to adapt itself to the ratio of the international market.²⁰⁾ The silver yen ceased to be legal tender and should be withdrawn from circulation. The government announced that all the one yen silver coins and the silver promissory note of the Mint would be exchanged with one yen gold coins at the rate of 1:1 from October 1, 1897, one yen silver should cease to circulate on April 1, 1898.²¹⁾

As for the exchange of the silver yen with gold coins the Japanese government and the foreign banks concerned for the same interests, namely, they feared that the gold-silver ratio in the market would change by the disorder in that exchange. According to *The Banker's Magazine*, "all that is matter of chance on which it were idle to speculate".²²⁾ Just after the promulgation of the Coinage Act of 1897, being doubtful as to the actual working of the act, some of the foreign banks sent out circulars to their customers notifying that they would choose either gold or silver coins in making specie payment even after October 1, 1897. Such behavior of the foreign banks should have lead to a change in the market ratio between gold and silver. To prevent such possibility, the government entrusted domestic exchange business to the Bank of Japan and that of foreign exchange to the Yokohama Specie Bank. The government offered a better exchange rate than that of available on the international money market in exchanging the silver yen to gold coins, and took measures to ensure that the Yokohama Specie Bank and foreign banks could retain a good quantity of debased silver coins for use only outside Japan.²³⁾ Anyhow, the success of the plan to withdraw the silver yen was depended

Table 1. (million yen)

net amount exported abroad	99.5
demonetarised	0.4
disbursed in China during Sino-Japanese War	11.0
circulating in Formosa	5.6
withdrawn	45.6
exchanged with gold coins	38.6
withdrawn at home	27.8
withdrawn from abroad	10.8
received by payments to the government	7.0
total issue	162.1

Source: Matsukata, *op. cit.*, pp. 307, 311.

20) Shinjo, *op. cit.*, p. 80.

21) As to the period for the exchange of silver yen with gold coins, the Act set up "five full years from the day on which the circulate is prohibited". But after the exchange had started, the government decided to cut short the period, until June 31, 1898. See Matsukata, *op. cit.*, pp. 214-5.

22) *The Banker's Magazine*, No. 639, Jun. 1897, p. 880.

23) *ibid.*, pp. 886-7. See also Matsukata, *op. cit.*, pp. 243-4.

upon the attitude of foreign banks.

The exchange of one yen silver coins was concluded on July 31, 1898. According to the calculation about the amount of one yen silver coin made on that day, the Table 1 is given.

As we have seen from these statistics, only 10% of the silver yen sent abroad was withdrawn and the rest was remained abroad.²⁴⁾ These portion of silver yen was seemed to be hoarded, chopped, or melted down for the minting the other silver coin in the many place in southern China and the Straits Settlements.

After withdrawn from circulation silver yen was to be disposed so as to play a new role in the gold standard system. The disposal was made by three ways, the recoinage into the new subsidiary silver coins, the sale in Hong Kong and Shanghai, and the disbursement in the Japanese colonies. In the case of the latter two ways, one yen silver coins were to be disfigured with the stamp indicating not to be legal tender, so as not to return to home. The amount of each disposals is following :

Table 2.	(million yen)
amount of withdrawal	
one yen silver coin withdrawn and exchanged with gold coins	38.6
one yen silver coin received by payments to the government	7.0
silver promissory notes of the Mint exchanged with gold coins	29.5
total	75.1
amount of disposal	
minted into subsidiary coins	27.6
sold in Shanghai	17.6
sold in Hong Kong	15.8
sold to foreign banks	7.4
disbursed in Formosa	6.2
do. in Wei-hai-wei	0.2
do. in Korea	0.3
total	75.1

Source : Matsukata, *op. cit.*, p. 311.

The Yokohama Specie Bank was responsible for selling silver yen in Hong Kong and Shanghai from November 1897. It exchanged the silver bullion for the silver tael at the rate of 58,000 grains of pure silver for 111 Shanghai taels, and it payed back in Tokyo to the government the corresponding amount of gold at the rate of exchange paid by the said bank in buying drafts on Shanghai.²⁵⁾ It

24) Prior to the promulgation of the Coinage Act 1897 the government had estimated that about 39 million yen at home and 10 million yen from abroad would have been withdrawn (*ibid.*, p. 197). And in September 1897, Thomas Jackson, chief manager of the HSBC, asked of from Japanese consul in Hong Kong, stated that less than one tenth of the total amount of silver yen exported from Japan would go back (*ibid.*, p. 277).

25) *ibid.*, pp. 316, 318.

also bought drafts on London in Hong Kong and Shanghai with the stamped silver yen, and delivered them to the government, who settled the drafts in London and transfered into the Indemnity Money Fund stated above.²⁶⁾ The Yokohama Specie Bank also handled the sale of silver yen to foreign banks such as the HSBC and the Chartered Bank. The sale of silver yen at Hong Kong and Shanghai and to the foreign banks helped to accumulate the exchange fund and to store the gold reserve. And through this process the Japanese financial linkage with London City become tight.

Meanwhile, silver yen brought to be used in Japanese colonies where Japan got gold in exchange for silver. The Imperial Ordinance of October 1897 ordered the nominal enforcement of the gold standard in Formosa. But in practice only the stamped silver yen was put in circulation at face value. Since November 1898 the Japanese occupation forces repeatedly asked to send them the stamped silver yen for their expenditure, and the government also met this request repeatedly.²⁷⁾ Although silver yen ceased to be a legal tender in Japan, it began to act as a spearhead for Japanese expansion toward East Asia.

III Foreign Banks and the Japanese Government Bonds after the Japanese Adoption of Gold Standard

From the view point of the Japanese government, the adoption of the gold standard system had good effects on the Japanese economy in two point. First, for the Japanese foreign trade, it was beneficial to the trade with gold standard countries, not only the western countries also India, to whom Japan had unfavorable balance of trade, and hitherto had been annoyed by the fluctuation of the exchange rate through the depreciation of the price of silver. This benefit seemed to be to surpass the difficulty come from the increasing competition with silver-using countries.²⁸⁾

The same effect went upon the financial condition of Japan. Now that the Japanese government had the gold specie reserve in London in consequence of the receipt of Chinese indemnity money, as stated above, it become easy to settle the increasing national expenditure for things bought abroad, such as war-ships. Besides, the Japanese government gold bonds began to sell on much better conditions on City, and to appear regularly in the price list of the London Stock Exchange.²⁹⁾

Japanese government had avoided to issue the government foreign bond after having issued in 1870 and 1873 with disadvantageous terms. But it had aimed at achieving full creditworthiness in the international capital market. The adopting the gold standard system coincided with this object. “*The Statist*”, in the article reporting that the new Japanese loan in gold was about to be brought out, stated that “the gold standard is adopted mainly because Japan already knew that she would have to borrow largely in Europe, and was of opinion that a gold standard would strengthen her credit”.³⁰⁾ Although it is after 1904, in preparation for Russo-Japanese War, that the Japanese government be-

26) *ibid.*, p. 317.

27) *ibid.*, pp. 326–7.

28) A report of the Higher Commission on Agriculture, Commerce and Industry, Oct. 1898, cited in Matsukata, *op. cit.*, pp. 369–372.

29) *ibid.*, p. 376–8.

30) *The Statist*, May 15, 1897, p. 750.

gan to issue the foreign bonds frequently, there are remarkable cases of selling of the Japanese government bonds in 1896 and 1897. On selling in 1897 the HSBC acted an important role as a member of the syndicate. These selling were rehearsal, so to speak, to enter into the London capital market both for the Japanese government and the HSBC.

Although it is registered that in October 1896 the Japanese consolidated bond was sold in London market with the term that it would be redeemed in conversion into pound at the quotation of silver bullion in London market, any further information can not be obtained.³¹⁾

In November 1896 the Kobe branch of Messrs. Marcus Samuel and co. of London began the negotiation in purchasing the Japanese government bond with some persons in the Bank of Japan and the Ministry of Finance. Samuel and co. conditioned to be redeemed in the gold currency. The Yokohama branch of the Chartered Bank tried to organize the syndicate in competent with Samuel and co.. Since January 1897, Yanosuke Iwasaki, governor of the Bank of Japan, made himself responsible for the negotiation, and in May he made a contract with Samuel and co. who had presented the issue price to be £102 per 1,000 yen and ammount to be 43 milion yen. This amount was from the holding of the national treasury. The syndicate was organized by Samuel and co., who was contractor, the Chartered Bank, the HSBC, and the Yokohama Specie Bank. At London the Capital and Counties Bank joined the syndicate. And on May 29, the Japanese government bond which amounted 43 million yen, namely £4,389,583 at the fixed rate of 2s. 1/2d. per yen, whose issue price was 101 1/2 per 100 yen of the loan, namely £103 12s. 4d. per 1,000 yen was brought into selling in public.³²⁾ The received money was deposited to the London branch of the Yokohama Specie Bank, and transfered into the Indemnity Money Fund.³³⁾

The HSBC had begun to engage in the issuing business for Chinese government since 1870s. After this Japanese loan in 1897, the HSBC was closely connected with Japanese governmental finance.³⁴⁾ In 1899, the commissions on the Chinese and Japanese government loan accounted for 34% of the second half-year's net earnings.³⁵⁾ In pursuing these business it developed the linkage much more than before with the London money market.

31) Okura-syo Rizai-kyoku (The Ministry of Finance, Bureau of Treasury), *Kokusai Enkaku-Ryaku* (A Concise History of Government Securities), Tokyo, 1917, Vol. 1, pp. 757–8.

32) *ibid.*, pp. 758–9, *Ginko Tsushin-Roku* (Bulletin of Banker's Reports), Tokyo, No. 139, Jun. 1897, pp. 131–3, *do.*, No. 143, Oct. 1897, p. 91, and *The Statist*, London, May. 22, 1897, p. 789.

33) *Meiji Zaisei-Shi* (History of the Public Finance in Meiji-Era), 1904, Tokyo, Vol. 2, p. 702.

34) The list of the loans that the Chinese government and the Japanese central or local government issued in Europe under the HSBC's commitment between 1885 and 1913 is printed in *The Banker's Magazine*, No. 837, Dec. 1913, pp. 736–7. According to it, after 1907 the loans by the South Manchurian Railway Co. of Japan appeared.

35) King, Frank H.H., *op. cit.* (*The Hong Kong Bank in late imperial China*, 1987), p. 497.