French banks in Hong Kong (1860s-1950s): Challengers to British banks?

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French banks could not imagine to shake the domination of the British banks on the Hong Kong market and their capital of influence throughout China¹, all the more because French companies were far less active in Hong Kong² and China than the British ones. The very presence of French banks there is surprising if we consider the role played by the Shanghai market³ for their leader Banque de l'Indochine and the trade flows fostered by the Yang Ze Kiang shipping for French wholesale traders (for instance up to Wuhan)⁴, and if we take into account the priority given by French interests to the penetration into China through the railway linking French Tonkin to south-western China. This awkward presence in Hong Kong raises thus questions about the missions attributed to French bankers there: were they helping French trading networks within South-East Asia⁵ for clearing activities? Were they involved in financing trading in southern China? Were they taking part to the life of the Hong Kong banking market itself? Let us precise that for decades French banks were represented in Hong Kong by a single bank, acting as they ambassador, first the Comptoir d'escompte de Paris (CEP), then Banque de l'Indochine, because they were conscious of the comparative edge of British banks and especially of the Hong Kong & Shanghai Bank (HSBC), and they agreed to avoid competition among them – up to the 1960s-1990s. Germany followed a while the same path (with Deutsch-Asiatisch Bank, linked with Deutsche Bank) and Belgium also – with Banque sino-belge in 1902, then in 1913 Banque Belge pour l'Étranger, an affiliate of Société générale de Belgique, which gave birth in 1934 to Banque Belge pour l’Étranger (Extrême-Orient)⁶.

By chance we got access to the correspondance between the Hong Kong branch of Banque de l'Indochine and its Paris headquarters, which helped us develop the pioneering analysis of Marc Meuleau’s history of the Banque de l’Indochine (BIC)⁷. Our text will first determine how a French banking institution took foot in Hong Kong; it will second precise the part played by the BIC Hong Kong branch within the commercial system of French Indochina; third, it will scrutinize the networks woven by the branch all over west-southern China; fourth, it will ponder the endeavours to assert itself on the Hong Kong local banking market; last, it will reconstitute the growth and the evolution of the branch in the midst of short-term economic trends, or of the political and military environment. Throughout this survey, we’ll follow there the path of business history applied to banking history, encompassing the evolution of the portfolio of strategical activities of the branch, its portfolio of skills, and its performance.

1. The emergence of a French bank in Hong Kong

Conversely with the negative perception of French banks’ history and “black legend” about they supposed “backwardness”, they had been early and firmly committed to international developments⁸, alongside the balance of power which prevailed on several levels and areas in favour of British institutions and somewhere of German or Belgian affiliates. CEP conceived for instance a strategy to prop up its customership of middle-sized companies – especially in trading on several commercial and maritime cities – by offering them a network of relays all over the scope covered by French traders in the Mediterranean area and then beyond Suez, particularly after the Suez canal⁹ was opened –, alongside some “imperial design”¹⁰, in Australia, India, China, and Hong Kong.

A. A bridgehead in Hong Kong to contain British domination and promote French business

There in Hong Kong, CEP branch functioned from 1862 to 1877 – the closure forcing the BIC Saigon branch to work with Oriental Bank in Hong Kong –, and was reopened in 1884 – perhaps because Oriental Bank collapsed in May 1884 in the midst of a sharp recession in 1883-1884, which opened a window of opportunity for the French institution in favour of French interests in Asia, especially the Cochinchina ones, all the more because France tried then to extend its grip on Tonkin and needed a relay in Hong Kong to promote French trade houses. On a middle term, CEP felt more and
more the effects of the depreciation of silver against gold because part of its Asian assets had been based on silver values and moreover because the risks on cash and bills transfer and exchange operations from Asia to Paris and London had become too high, and CEP chose to alleviate its commitment to further Chinese developments; on a short term, it could have suffered from the Chinese boycott against French products because of the war in Tonkin. IN the meanwhile, the creation of BIC and the collapse of CEP in 1889 (replaced by Comptoir national d’escompte de Paris or CNEP) paved the way to a new scheme; whilst CNEP kept its Australian, Indian, and Egyptian strongholds, BIC, now the key banking institution in the whole Indochina, also assumed – as a counterpart – the mission to represent French banks in China (Shanghai in 1898, Guangzhou and Hankeou in 1902, Beijing and Tien Tsin in 1907) and South-East Asia (Bangkok in 1897, Singapore in 1905).

This led to its landing in Hong Kong, where it inherited from the CNEP agency in 1894 and opened its own branch – the first report being sent to Paris on 28 August 1894. In fact the Paris board was hostile to such forays in China, but the State had linked the renewal of its concession for issuing banknotes in Indochina with a forward policy in Asia to sustain the French trading houses and shipping, thus containing somehow British and German ones. A new policy has been shaped under minister of Foreign Affairs Gabriel Hanotaux (May 1894-November 1895; April 1896-June 1898) consisting with taking profit from China’s military and diplomatic crisis (the China-Japan war of 1894-1895) and part of China’s commercial dismantlement: France was given leeway to develop its influence in Yunnan, to prospect mines in south-western China, an area where first advantages had been reaped through the 1887 treaty. The mission of Banque de l’Indochine (BIC) was reinforced by the fact the Société générale (in 1887) and Crédit lyonnais (in 1895) renounced to their project to settle in Asia and agreed to consider it as the sole representative of French banking community in this area. The State demanded to BIC to supplement this diplomatic and commercial offensive through a willful banking policy, to which the bank was still reluctant, only yearning for exploiting its Indochinese bastion: “We do not consider to tackle in Hong Kong operations of discount or advances, for which we would perhaps not be as well positioned as local banks. Our sole objective, through opening this branch, is to assume and ease to our branches in Cochinchina and Tonkin a regular development of their operations.”

This explains the precarious situation of the Hong Kong branch, which was first dependant from the Saigon one (between 1894 and 1898) and had to prove its very usefulness to the Paris direction. Despite its small dimension, it had to define a portfolio of strategic activities which should allow it first to be profitable, second to find out some niches between the leading positions of British banks (HSBC, Chartered Mercantile Bank of India, London and China, etc.): every year it had to conquer its raison d’être. The branch was often inspected either by the manager of the larger Saigon branch, or by an inspector from Paris, to check the reliability of the books, which was required because of the isolation there among an ocean of large British corporations. BIC Hong Kong was the key French branch on the Hong Kong market, even if a few competitors tried to get access in direct to some business here: Banque russo-chinoise was first a partner, then it broke its relationship with BIC and opened its own branch in Hong Kong in 1904, which never played a significant role; a harsh competitor to BIC, Banque industrielle de Chine (BIDC), tried to establish a bridgehead in Hong Kong; but it failed in 1923 and rescued under the name Banque franco-chinoise, did not either become decisive in Hong Kong, and it ceded its assets to BIC in 1937.

B. The lean organisation of a second-rank player

To pretend to success, the branch was slightly equipped; this was due to the fact that the CNEP branch was managed from the Shanghai one and required only two European sub-managers; the premises – a second storey on the mountain road – were simple, even if located in front of the HSBC building. A very small team of European expatriates constituted the core of its little organisation: three sub-managers (cashier, accountant) with three auxiliaries in 1895 (as “commissionned agent”), and the “chief manager”. Local employees were also active, for instance (up to 1929) two Portuguese brothers, Xavier, one in charge of the count Advances on equity (from 1902) and the other one of the count Exchange contracts and of day to day interbank clearing.
But the growth of the activities of the branch and the conscience of its real future led the Paris direction to favour twice a removal. It was first transferred in the premises of the Imperial Bank of China (which closed its branch in August 1905) in a building (Prince Building) already occupied by Yokohama Specie Bank and Banque russo-chinoise – but on the opposite side – and started its operations there on 18 December 1905. The extension of operations justified a second removal to a new six-storeys building, built from July 1924 just near Chartered Bank, Mercantile Bank, and Bank of Guangzhou: it was delivered on 8 April 1926 and inaugurated on 19 April. Its groundfloor welcomed the branch, the first storey Crédit foncier d’Extrême-Orient, and the other ones were rented except one used to house three employees. BIC disposed twice of a relevant space and more importantly of a material leverage to assert its standing on the Hong Kong market in face of British institutions.

The fate of the branch rested in fact on the very qualities of its managing director; life conditions were anyway hard and some expatriates could not resist the climate environment: Léon Simon had to left after only a few months in Hong Kong where he got tuberculosis... Happily, his colleagues were stable, and could thus consolidate their capital of competence: Meyer (1894-1895); L. Berindoague (1896-1919), and Martot (1920-1940). The director supervised a work-force which was kept under a drastic ceiling because of the requirements of profitability: it managed commonly the day to day back-office processes about the registration of bills of exchange flows, of exchange operations, and of accountancy books. Its quality was generally recognised by the director and the inspectors; and the skills of the cashier were so much admitted that he was elevated to the charge of director of the sister branch on Guangzhou in March 1910 – being replaced by an executive coming from Bangkok. The key difficulty for European employees was the price of lodging (particularly for families), which explains long-distance commuting (from Kowloon), and a house was built to welcome part of them in 1924-1925, whilst a few ones were lodged in the new building of the branch from 1924. Although uneven, the quality of expatriates was recognised by the executives, and a member of the staff (André Ruyters) was admitted as so good that he was promoted as director of the Hankeou branch in 1924.

C. The compradores at Banque de l’Indochine Hong Kong: continuity and reliability

As usual in Chinese business, a comprador inserted the branch within the local business community. Kwok Sui Lau was recruited in 1894 under a pledge which was constituted of mortgages on his property, the deposit of equity (750 shares of the Hong Kong Guangzhou Macao Steamboat), and a financial guarantee ($70,000) by two other Chinese people – among which banker Loy Hing –, the total amount reaching $113,750; he kept his job up to 1906: “Since eleven years that I work with him, I did consider him very much; he is a serious man, very rightful, sincerely devoted to our institution.” During the difficult crisis on 1905, he showed an exceptional vigilance; thanks to his intelligent zeal, our bank was the sole in Hong Kong to get unscathed out of the numerous failures which occurred then.”

He was replaced by Ho Wing Tsun, who had worked for HBSC as an employee (shroff), then became a businessman, and started on the job from November 1906. He managed his own team, comprising about twenty employees in 1910 (3 shroffs, 2 cashier-shroffs, 4 counter-shroffs, 9 office coolies, 2 office boys and one cook) and 30 in 1922 (14 shroffs, 8 coolies, 2 bank coolies, 3 office boys, 1 detective, 2 cooks). “Our compradore is a serious but timorous man, who is, guided by our ancient compradore, a much honest man, ever devoted to our institution.” The branch was lucky relying on qualified and serious compradores, and it did not suffer any disappointment up to 1927. Ho crossed WW1 and was still active in the 1920s, with a fortune of $500 to 600,000 and a pledge of $150,000 provided by Kwok, the first compradore. At this time, his earnings came out of 1/8 percent commission on business he initiated and of a ¾ per cent on profits. Ho was so much reliable that his son Ho Huyen, who had been his deputy for five years, became the compradore of a new branch which BIC opened in Kouang Tcheou Wan (or Fort-Bayart) in 1924. Ho Win Tsun died in August 1929 and was replaced by Kwok Chan, the son of Kwok Siu Lau, the ancient compradore, who had worked as a deputy compradore at the branch for five years – whilst his brother Kowk On climbed up to the charge of head of the equity department in July 1929. Kwok junior presented a pledge of $825,700.
2. A relay for the Asian network of Banque de l’Indochine

The initial function of the Hong Kong branch of BIC (thereafter: ‘BIC Hong Kong’) was to be a mere tool at the service of the main branches of Indochina, and then also of the branches opened in China and even in Singapour. It was not equipped to manage assets by itself as it had been attributed only with £25,000 as a capital to finance its day to day needs, through a draft by the headquarters. But its scope was extended year after year thanks to banking opportunities and to the portfolio of skills steadily constituted by keen directors, which perceived the niches opened to flexible and profitable operations; their major concern was to avoid taking risks larger than their financial means, which led them to lean on the main banks to use their capital of experience. This progress was stimulated when in 1900 BIC recognised the durable efficiency and success of its Hong Kong branch: it allocated extended resources, for an amount of one million francs (£40,000)\(^{32}\), which reached\(^{33}\) about £334,676 (or $3,245,338) in 1929.

One key role took shape rapidly: the director became a relevant source of information for BIC about the evolution of financial, political, and even military events all over southern China – often crossing History because of political and military effects of the evolution of the regime in Beijing on the southern states and warlords, from the struggles in the 1890s up to the successive revolutions in the 1910s-1920s. For example, it collected rich details about the mining projects at the beginning of the 20th century and about the main actors of these developments in Yunnan, because of its links with Guangzhou and Hong Kong merchants, who were involved and could provide opportunities of financing their trade\(^{34}\).

A. The function of clearing bills of exchange and managing exchange

One important task was the remittance of bills of exchange and documentary credits from Hong Kong to London: the branch paid cash Hong Kong customers and send the files to the branch of BIC in the City – with a ceiling fixed at $25,000 for the global amount of overdraft\(^{35}\) (then 45,000 from 1901). Alongside the variations of interest rates, it purchased bills in Hong Kong, either for its own account or for the account of other Asian BIC branches, sending part of their cash assets to their sister branch (especially the Saigon branch), and transmitted them mainly to London or also to Paris; an amount of $751,000 was thus due by the London branch in 1912 for exchange contracts\(^{36}\).

The main skills of the Hong Kong branch became its ability of joining the foreign exchange market – in fact often linked with the trading of bills of exchange. Even if BIC Guangzhou branch put brakes on the mutualisation of such forex activity on Hong Kong and even gained its autonomy in February 1910 for this activity, the Hong Kong market predominated in the area, because it was fostered by the treasury moves between the numerous and often powerful banks there. French silk merchants in Guangzhou sent for example bills to the Hong Kong branch for the name of Saigon merchants, thus opening operations of exchange from pounds to francs; they acted through brokers, negotiating exchange contracts with the Hong Kong banks to get the best rate, and the BIC branch was more and more competitive from the turn of the 20th century, all the more that its growing availabilities allowed it to extend somewhat its risks.

For this whole range of operations, the Hong Kong branch worked intimately with the Guangzhou branch because, during the slack season (in the winter), it endured a glut of cash. Even if HSBC reinforced its presence in Guangdong, BIC Hong Kong remained competitive, and welcomed Guangzhou piasters to be exchanged in Hong Kong against dollars or pounds, or mainly documentary credits remitted to London\(^{37}\). But the Saigon and Haiphong branches also purchased bills issued on Hong Kong and sent them to the Hong Kong branch – resisting the competition from brokers proposing better rates\(^{38}\).

After WW1, incertitudes about the franc and erratic moves on currencies fueled concerns and led BIC Hong Kong to develop operations in Hong Kong dollars, USD, and pounds. Local exchanges could suffered from the variations of Chinese currencies issued in the southern provinces (especially Yunnan throughout the 1920s), where merchants linked to the branch were so active: this explains the growth of exchange operations – even if the BIC Shanghai branch prevailed far
much – thanks to the link between the Hong Kong dollar and the pound and thus to gold. Risks intensified and the manager had to follow prudent paths and to collect keen information to tackle his portfolio on currencies – all the more because military and political events in continental China (in the near Guangdong, for instance) provoked uncertainty: “Reports on sterling constitute for the moment the most favourable investment for our local disponibilities.” Because of the general crisis perhaps, of the harsh crisis of Indochinese economy, of the uncertainty about the Shanghai market, or surely of the floating currency rates from 1931-1933, exchange operations became the core activity of BIC Hong Kong in the mid-1930s, with reports on Hong Kong dollars, through a local interbanking market (“cross operations”) as a way to invest availabilities. In 1935, operations were intensified: silver was purchased in London and resold on Hong Kong against Hong Kong dollars because the Hong Kong dollar was quoted under its silver value: the whole banking market was then speculating on forex (for about $40,000 and FRF 10 million in 1935): “The Hong Kong branch draws almost all its profits from arbitrage operations. During a few years, when the forex remains still, it cannot relieve on important profits because exchanges with Indochina and local advances on equity, which constituted a few years ago substantial benefits, are for the moment almost wholly stopped.” A very last operation relied on fine gold trading when BIC purchased gold (for $ 2 million) to Swiss Bank and Hambros in Europe and resold it partly (£412,000) to National City Bank, Swiss Bank, and Hambros, perhaps because of intense opportunities to play on the variations of local Chinese and Hong Kong currencies.

B. The function of investing treasury disponibilities

The core function of the Hong Kong branch was to put at work the cash availabilities of the network of BIC all over Asia, when they could not invest it into trading business. The Saigon branch was due to be the first beneficiary of such a short term policy for its cash assets, and its deposits were supposed to feed the Hong Kong branch with working capital, far beyond the permanent but thin line of credit opened in Paris. But freedom prevailed because the Saigon manager pleaded for its independancy and, for example, he concluded business agreements with HSBC in the 1895 for cash valuation through trading on Mexican piasters (for about $8 million) or he used its sister branch only for collateral loans on call, that is very short term operations, depriving the Hong Kong branch from middle-term resources. A similar attitude prevailed sometimes at the Guangzhou branch, the manager which was tempted to use a Guangzhou broker to find better interest rates for its treasury availabilities, short-circuiting the Hong Kong branch: “Acting that way, he is easing Hong Kong banks (Equitable Eastern Banking, Hong Kong Bank, Bank of East Asia) their exchange operations; he gave operations on francs to BEA which had much interested me because I am looking for cover in francs to my sales of dollars to Charbonnages du Tonkin.”

Anyway, this desire of autonomy was often crushed by Paris decision and moreover by the ability of the Hong Kong branch to get better and better investments, thanks to its growing skills and creditworthiness on the market. In fact, a permanent exchange prevailed: the Hong Kong branch either provided Saigon with funds, or more often welcomed its treasury on deposit accounts, which fostered its own credit operations. Thus, in 1912, it lodged a $3 million stable deposit, in fact its core resource – and the amount was of $746,000 in 1929 or about one fifth the $4 million permanent resources of the branch. It also purchased piasters in Hong Kong for the name of Saigon and Haiphong (up to $200,000 in 1895, for exemple). More importantly, traders with Saigon on the Hong Kong market benefitted from loans on collateral by the Hong Kong branch at the request of the Saigon one. Conversely it granted debt facilities to other BIC branches when necessary – for example $369,000 in favour of the Shanghai one, 300,000 for the Bangkok and 58,000 to Singapore in 1912.

C. At the service of the French banking community?

Despite its independant strategy and management, BIC was inserted within the French banking community as it armed member against competitors in the Asian and Pacific area. This explains that its Hong Kong branch welcome funds from the CNEP branches overseas, or that it managed deals with the CNEP and the Banque russe-chinoise (active in north-eastern China) branches in San Francisco (in the 1890s) because of trans-Pacific business. It asserted itself rapidly as the correspondent in Hong Kong for Paris banks, and the daily mail from Paris arrived through the
malle-poste owing French line *Messageries maritimes* or its competitors (for instance *Deutscher Lloyd* in the 1890s). This function was confirmed when in 1901 five French banks opened blank and permanent acceptance credit lines either in Paris or in London to the BIC Hong Kong branch\(^5\). Locally it worked with the Guangzhou branch of *Banque russo-chinoise*, only to oversee its sales of bills acquired in Guangzhou and payable in Hong Kong\(^5\); and it reached an agreement in 1897 with its Shanghai branch, which opened a large deposit account there\(^5\) – up to 1904. No direct source provides information of the activity of BIC Hong Kong in the name of other French banks, surely because these latter rely entirely on BIC to tackle Asian issues in favour of their own French clients. The single event occurred lately when the *Groupe uni des banques françaises* used BIC to open a common credit to the Central Bank in China in 1937 – apparently repaid by a monthly transfer from hg to London of 5,000 silver bars (or $25 million) by HSBC\(^5\).

The very first function of BIC Hong Kong was therefore completed with efficiency: it rised as a key hub for inner exchanges within the BIC network in South-East Asia (mainly Saigon and Guangzhou) and helped pushing large amount of cash capital to work through short-term investments on the Hong Kong banking market. Last, it played a key role and acquired an actual portfolio of skills for all the forex activities, as a little table of markets, which anyway could not have succeeded without the operations concluded daily with British big banks in Hong Kong.

### 3. The Hong Kong branch at the service of French business’ interests

BIC Hong Kong joined the fray of French interests in South-East Asia, alongside two main commercial axis.

**A. Banque de l’Indochine at the service of business between Indochina and Hong Kong**

It became a hub for favouring the relationship between Hong Kong and Indochina when this latter emerged as a somehow prosperous country able to export commodities\(^5\). Its very first mission was the service to traders in Indochina, whom BIC, arguing that they were deprived of the capital of information and competence of the Hong Kong branch; convinced from the 1890s to use the branch instead of trying to manage their exceeding funds in Hong Kong through their own investments: “*Up to now for their *[of the Chinese traders in Haiphong] shipments of goods to Hong Kong and those which they received, exporters and importers agreed to clearing their operations, and the balance was sold to Hong Kong in cash. This caused them difficults, delays, and thus losss in interests. I showed them the advantages for them to use the Bic for these operations, and they understood very well.*”\(^5\) Generally speaking, Hong Kong became a key hub for Indochinese exports, all the more because rice plants in Saigon-Cholon were in the hands of Chinese manufacturers and traders.

| Table 1. Part of Hong Kong trade in the exterior trade of Cochinchina (yearly average 1879-1883)\(^5\) |  |
|---|---|---|
| From Cochinchina to Hong Kong | 6,165 | 52.3% |
| From Hong Kong to Cochinchina | 3,489 | 39.2% |

| Table 2. Part of Saigon exports seized by export to Hong Kong\(^a\) |  |
|---|---|---|
| 1905 | 20% |
| 1907 | 25% |
| 1907 | 50% |
| 1909 | 15% |
| 1911-1913 | 25 to 30 % |
| 1919-1921 | 35% |
| 1923-1924 | 60% |

Indochinese traders exported huge amounts of rice to China, generally through Hong Kong, even some of the cargoes were delivered to coast port without transiting through Hong Kong. Saigon prevailed as the key port exporting rice to Hong Kong (541,000 tons in 1890); in parallel, Haiphong asserted itself as new source of trade: as soon as it was equipped with a modern port (from the 1890s) and rice cultivation still progressed in Tonkin, rice exports to Hong Kong grew a lot, (from 60,000 tons in 1892). Indochina remained the main supplier of the Hong Kong market
in the interwar: Chinese merchants purchased rice in Saigon, Bangkok, and Burmah, and sold it to Hong Kong traders, who selected, mixed, and stored them, before selling them to export houses (to China, Japan or else), thus opening opportunities to several stages of credit, to which BIC took a little part on Hong Kong – its main involvement being in Indochina.

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<th>Table 3. Flows of rice in April-October 1930 (in “piculs”)</th>
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<tr>
<td>Imports to Hong Kong: 5,570,000</td>
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<tr>
<td>From Indochina: 2,855,000 (51.3%)</td>
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<tr>
<td>From Siam: 2,216,000 (39.8%)</td>
</tr>
<tr>
<td>From Burmah: 474,000 (8.5%)</td>
</tr>
<tr>
<td>Exports from Hong Kong: 4,488,000</td>
</tr>
<tr>
<td>North China: 784,000</td>
</tr>
<tr>
<td>Middle China: 12,000</td>
</tr>
<tr>
<td>South China: 2,046,000</td>
</tr>
<tr>
<td>Macao: 152,000</td>
</tr>
<tr>
<td>Philippines: 90,000</td>
</tr>
<tr>
<td>Japan: 347,000</td>
</tr>
<tr>
<td>South America: 77,000</td>
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<tr>
<td>USA: 37,000</td>
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</tbody>
</table>

A special line (with two ships) joined Indochina and Hong Kong in the first decade of the 20th century and a special shipping line between Haiphong and Hong Kong was adjudicated in 1910 (to East Asiatic shipping). Hong Kong banks were used to finance loans to Saigon traders exporting rice to Hong Kong (and then often to Japan), and BIC joined in this business HSBC and Bank of China; but it progressively enlarged its market share. Chinese merchants of rice in Saigon–Cholon gathered packs of documentary credits on Hong Kong, and the payments by Hong Kong importers fueled cash, to be used there.

Meanwhile, coal trade opened doors to important credits: Charbonnages du Tonkin, a colliery which sold coal in Hong Kong, became a client of the BIC branch from the start; Hong Kong houses were financed by BIC to trade Tonkin coal (for instance bills issued by Butterfiled & Swire on Charbonnages de Hongay); a $600,000 payment was completed in favour of Société française des charbonnages in 1896, as advances on sales to Hong Kong traders. But the large dimension of such trade explains that companies had often rather use HBSC as their banker on Hong Kong instead of BIC, complaining against such attitude...

Trade on goods was also financed by the BIC branch, all the more because some of BIC’s clients in Indochina itself intensified their operations with Hong Kong: Union commerciale indochinoise et africaine (UCIA) opened thus an office in Hong Kong in 1907 for import-export wholesale trading. A comprehensive assessment of such flows seems impossible, but the Hong Kong branch showed its usefulness and efficiency on several cases – for example when French Descours & Cabaud sent tyres to the Europe Asia Trading company in Indochina with discount by BIC Hong Kong. Trade house Optorg – diversifying from its ancient activities in Russia – moved to Hong Kong and Shanghai in 1923 and started there import trade of goods (mainly wool cloth, but also spirits and champagne, pharmaceutics) which it delivered against promissory notes, and BIC Hong Kong became its leverage in Asia; it collected its remittances on Hong Kong, fueled exchange contracts (FRF 982,000 in 1931), and carried a large portfolio of bills drawn on Chinese clients ($82,000 on I.P. Hang Fong in 1931) for goods stored at the name of the bank pending sales. But generally speaking, imports from Hong Kong were inferior to exports from Indochina to Hong Kong, which explains the cash to be used as treasury deposits or short-term investments on the Hong Kong markets, or even to purchase bills of exchange to be remitted in London or Paris.

<table>
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<th>Table 4. Commercial partners of Indochina in 1924 (FRF million)</th>
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<td>From/to</td>
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<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Metropolitan France</td>
</tr>
<tr>
<td>Hong Kong</td>
</tr>
<tr>
<td>China</td>
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<tr>
<td>Singapore</td>
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<td>Dutch Indies</td>
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<td>British Indies</td>
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<td>Philippines</td>
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B. Banque de l’Indochine Hong Kong at the service of French business in Guangzhou

French business had taken shape meanwhile in Guangzhou (Canton) itself: French traders were active on this market, to import goods there and of course to export silk and various textiles; and they cooperated with Chinese houses either of Guangzhou or of Hong Kong\(^69\). A French shipping line (Trévoux) was even opened (with four ships) between Guangzhou and Hong Kong (90 miles), and Guangzhou and Woutcheou (on a river upstream westward from Guangzhou) in 1901 thanks to grant from the Indochina government, despite the leadership of the Hong Kong Guangzhou Macao Steamship Company\(^70\) because some kind of a French zone of influence spread East-West from Yunnan to Kuangsi and the limits of Kwantung (Guangdong) – but the French-controlled Kuang Tcheou Wan port never competed with Hong Kong. Business was reinforced when the Kowloon-Guangzhou railway was opened in April 1909 (inaugurated in October 1910), which led to a whole line Hong Kong-Guangzhou for 178 km. BIC could take profit from the growing relationship between Hong Kong and Guangzhou, either by riverboats or by train. This business was a magnificent opportunity – except when civil war occurred around Guangzhou in 1910-1913 (see further). French authorities favoured a forward policy of French traders (Pasquet, Boyer, Mazet, Varennes, Guillet, etc.) in south-western China – and BIC Hong Kong sustained them in complement to BIC Guangzhou, because brokers helped French traders investing their treasury on Hong Kong, or fueled acceptance credits for bills presented in Hong Kong\(^71\) to be remitted in Saigon or elsewhere. Four-months documentary credits were developed in favour of French silk traders on Guangzhou, with “bills negotiated against shipment of silk (whether raw, waste or manufactured)”\(^72\) from September 1908.

After WW1, trading in the Guangzhou area became risky and BIC had to assess the balance sheet of its clients, for instance when the most active house there, Gérin-Drevard, tackling cotton yarns, silk and rice (in Haiphong, Yunnanfou and Guangzhou), needed fresh loans, either from the Guangzhou branch or from the Hong Kong one\(^73\) – bearing then exchange contracts for FRF 700,000 and a portfolio of bills of FRF 1,216,00 or £12,000 – before its collapse in 1926. The civil war in Kwangsi in 1922-1923 put brakes on business\(^74\). But trade was resumed each time, and BIC Hong Kong took part to advances on goods (human hair, fantasy feather for fans, cow and buffalo hides, duck down for bedding, silk scraps\(^75\), etc.) to export Franco-Chinese trading houses (Charles Meurer, Kranjia, in 1924; Albert Gresse\(^76\) in 1929) using Hong Kong wholesale-traders relays. BIC Hong Kong contributed thus to the interweaving of French and Chinese firms on both Guangzhou and Hong Kong places.

BIC also worked with import houses: Pinguet needed for example between $65,000 to 200,000 to sell through Hong Kong to Guangzhou Chinese houses (through its own compradore) fabrics from French northern industrialists, steel, cigarette paper, or Tonkin coal (and even armaments in 1927)\(^77\). BIC financed the imports by “ancient and well-known” Chinese houses of growing imports of fabrics and moreover of steel exported by French company De Wendel\(^78\), which reveals the modernisation of Guangdong economy. It even became in 1937 the representative in Hong Kong of French textile house Lepoutre, from Roubaix, as its agent for handling, storage, and sales\(^79\) of yarns. BIC Hong Kong relied too on “our biggest client for imports, Franco-Chinese Trading”, with risks reaching $46,000 in 1925 on pieces goods and sundries and $25,000 (or FRF 314,00) through discount of bills\(^80\) emitted on the firm by suppliers in London, Bradford, and Manchester – guaranteed by a mortgage, a deposit of equity and a collateral on goods. This company had become a client in January 1922: “It was one of our best clients, and our branch had often borne with it important risks, notably because of credits to import and exchange contracts. In 1925 particularly the opened credits in Europe and Australia exceeded $400,000. All these businesses were completed satisfactorily and fueled, all along years, good profits. The manager of the company, H.A.P. Low, and his elder brother, W.A.H. Low [himself established in Guangzhou], are young Chinese coming from Australia where they received a modern education [...]. Their export trade with the Floquet house in Paris has always been much satisfying.”\(^81\)

The mission attributed by French State to BIC in the mid-1890s to serve as a leverage to French businessmen in Asia was assumed on its part with talent and efficiency by its Hong Kong branch. It sustained the offensive of French merchants in south-western China, from Yunnan to Guangdong, which took part to the general Chinese growth\(^82\), and mainly on the Guangzhou market itself,
where were active so many Franco-Chinese joint-ventures, and where so many French goods were imported. A somewhat “local” market was thus entertained by BIC Hong Kong through flows of remittances from Guangzhou to Hong Kong and vice-versa. We cannot estimate the actual contribution to French commercial development in this area, for lack of figures, but it helped transforming the breakthrough into solid and durable commercial positions.

4. The development of activities on the Hong Kong market

Thanks to the growing trust which the Paris direction showed to its Hong Kong branch, this latter was more and more given leeway to broaden its scope and to assert itself as an actual banking actor on the Hong Kong market itself: the port became a key maritime hub for exchanges all over South-East Asia and the gate to southern China, which provided the French bank windows of opportunity to catch a few crumbs of this outlets.

A. Towards Banque de l’Indochine’s embeddedness

It was no longer a mere representative tool for the BIC network of the French banking community, and it became authorised and able to provide credit services to non-French customers. First, the temptation was so strong because of the upsurge of commercial opportunities on the Hong Kong market, stimulated by the development of its maritime transit – 527,280 ship coming in and out with a 58,8 million tons traffic in 1909, told the branch. Second, a classical trend was the increasing embeddedness83 of the branch among the banking community and more largely the Hong Kong business: the reputation of its competence and creditworthiness, its Banque de l’Indochine brand (now recognised all over South-East Asia and China), its role as a platform for bills and currencies exchange, and the art of its director to be introduced into some social events led to an implicit admission of the deep-rootedness of the branch within the Hong Kong banking and business community. BIC Hong Kong activated altogether its strategic action and the social construction of its economic perception on the Hong Kong market.

From the start it had been recognised by the leaders, because it did not confront them: it acted under their tutelage, for instance as it opened accounts for cash flows are at HSBC84 and Chartered Bank from the mid-1890s. It had to admit to the market conditions fixed by these leaders: “HBSC, mastering the rates in Hong Kong, and Shanghai, manoeuvres them alongside its own needs and can set profitable operations with minimal risks, the initiative of which cannot be taken by a competitor because, depending on the rates fixed by the local bank, it would be exposed to serious setbacks.”85 The attitude of co-operation and the policy of finding out complementary niches prevailed over challenging such British domination, which confirmed the position reached in other Chinese areas86.

The portfolio of competence of the BIC branch could thus bear fruit at the service of a non-French customership and take profit of networking among Chinese communities87 either in Hong Kong or in neighbouring harbors (Guangzhou, or else). Any development had to adopt this strategy anyway because French trading there was relatively a meager one, with only a share of 3.3 per cent of the total amount of Hong Kong trade with the nine leading foreign countries shipping with the harbour88 and a mere 1.17 per cent of the whole 22.4 million tons of the global Hong Kong trade with foreign countries (in and out transit) (against 17.2 per cent for the UK).

<table>
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<th>Table 5. Hong Kong harbour trade (steamers and sailing) in tonnage in 1909</th>
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<td>Total of the nine leading shipping countries</td>
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<td>United Kingdom</td>
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<tr>
<td>Japan</td>
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<td>Germany</td>
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<td>Austria-Hungaria</td>
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France itself (with less than 0.5 per cent of import-export) occupied only a secondary place as an actor on the Hong Kong market, and only through Indochina did it play a significant role there, reaching on tenth of imports (because of rice) and almost 5 per cent of exports (towards Guangdong, mainly), far less than Belgium (because of fabrics and mechanics, sold to central China?). France leading deliveries to Hong Kong were then chemical and drugs, dyeing and tanning materials, and foodstuffs.

| Table 6. Hong Kong trade with a few countries in March 1933 (HK$) |
|-----------------------------|-----------------------------|
| Imports | Exports |
| Total | 49,252,000 | 50,099,000 |
| France | 248,000 (0.5%) | 174,000 (0.347%) |
| Indochina | 4,679,000 (9.5%) | 2,247,000 (4.49%) |
| Belgium | 6,476,000 | 9,786,000 |
| Germany | 1,837,000 | 92,000 |
| USA | 4,788,000 | 1,880,000 |
| Japan | 2,045,000 | 1,217,000 |
| Siam | 4,877,000 | 1,484,000 |
| Indonesia | 3,994,000 | 758,000 |
| North China | 6,476,000 | 9,786,000 |
| Middle China | 824,000 | 3,765,000 |
| South China | 5,739,000 | 1,440,000 |

B. Collecting deposits

The BIC branch gained in creditworthiness and ended collecting deposits from trading houses and banks – either from branches all over South-East Asia or from BIC branches – which led to thick disponibilities: they were for example estimated at $645,000 in 1907 (of which 640,000 in bank-notes). The amount of stable deposits grew to $3 million in 1912. From the start, the branch inherited from CNEP rich mandarins who had been depositors since a decade. But it desperately lacked of important and stable deposits, which “hindered it from fostering operations which it could find out”. It got deposits from merchant houses, especially those to which it granted credits.

C. Credits to trading

The emergence of a lending policy to Hong Kong business took shape slowly but steadily, but with a lucid conscience of the actual balance of power: “We are here in competition of the central administration of a powerful institution [HSBC], the absolute master of the market.” Such a pressure culminated during the 1910-1913 years (the Guangzhou struggle), when the glut of unused capital on the Hong Kong market eroded the interest rates, which weighted on the profitability. BIC had thus to face the conditions imposed by HSBC. This situation enticed it to select attentively the borrowers because the profit margin was screwed by the leading bank, all the more for years it lacked resources in deposits as leverage to finance a sharp extension of loans. The raise of its current capital in 1900 changed its way of life because advances could reach a $1,2 million ceiling, and the range of loans was at the same time extended to loans in blank.

But its skills were based on a long experience: from the start, it had opened loans on collateral to big Chinese merchants (for opium and cotton trade). Such loans became the priority, on fabrics and spun yarns, on raw materials (mercury, opium, saltpetre) or even silver and gold leaves: “Such advances can be opened either to European traders, or Indian or Chinese ones”, with a 4.5 to 6 per cent return. Advances on equity were also developed (for example, for an amount of $432,000 in 1907 against a pledge value of 788,000 and a profit margin of 20 per cent). In practical terms, for truly Chinese activities besides French business, BIC Hong Kong was involved to credits to trading of tin from south-west China (West of Mongze, in Yunnan, just north to Indochina border): four-fifths of tin extracted there were exported to Hong Kong because the Ko Tirou mines owners sold their production to about 15 to 20 Guangzhou and Hong Kong Chinese traders; this tin was joined in Hong Kong by cargo coming from Singapore and Penang; then tin was exported either to China (1/5) or to Europe by European houses. And BIC tried to take part to the chain of credit, which was still more developed in the 1920s because the branch lent on inventories of tin to companies exporting to the USA or Japan, and for some little to Indochina.
BIC Hong Kong became involved in some credit activities to Chinese merchants having business in Hong Kong, Guangzhou, and in areas upstream of Guangzhou, alongside the West River up to Wushou-Wou Tcheou and up to Nanning (in Kwangsi) with small steamers then from Wushou to Nanning on river-boats. But BIC Hong Kong enriched its customership by seducing renowned houses, for instance David Sassoon Sons & Co. Several houses (Jardine & Matheson, Chater & Mody, SJ David, AG Morris, TH Whitehead) were little shareholders of BIC, which confirms that they were its clients, for example for imports in Hong Kong of opium and cotton yarn. Its portfolio of advances on call grew strongly in the 1920s (with rates at 6.5 per cent in 1924) – thanks to cash deposited by the Saigon branch. Advances on equity were developed in parallel and reached for instance $4,058 million in June 1925 and 3,782 million in October, “among which 1,125 million to Chinese clients with the guarantee of our compradore through an equity value of 1,647 million”, and all these clients were considered as “serious and solvent”. The branch financed more and more advances on goods to local companies (Ruttojee & Sons, for example, in 1930, with credits of $68,406, notably for brandy) or Hong Kong Brewers & Distillers. “The risks on Hong Kong are normal risks and are mainly constituted with advances well pledged by mortages, by equity or by exchange contracts, the delivery of which functions regularly.”

Globally BIC Hong Kong became a hub for cash transfers mixing operations for the inner flows of BIC branches in South-East Asia (from Indochina to Hong Kong, then to London and Paris), or for the outer flows generated by merchants having constituted a “local” customership. And it became more and more another hub using cash avilabilities to finance flows from Hong Kong to London, sometimes through operations linking Hong Kong and India, then India to London – because of imports of opium and textiles from India against refined opium and silk. A global framework took shape with intercrossed and cleared flows of bills and silver piasters, within South-Asia, with relays in India, or directly to London and Paris.

Table 7: A simplified scheme of goods, commodities, and money flows involving the BIC Hong Kong branch

![Diagram of goods and money flows](image-url)
D. The development of activities in the Pacific area

For the relationship between BIC Hong Kong and the whole Asia, currency exchanges was also predominating, especially on yen – even its sister in Singapore assumed a larger activity in the 1890s. BIC Hong Kong concluded for example a durable contact with Nederlandsche HandelsMaatschappij, a trading house active in Singapore, for deposits in Hong Kong – balanced by deposits by BIC Hong Kong on NHM account in Singapore – and the amount reached one million francs in 1897. BIC nurtured relations with Japanese banks because of exports from Indochina to Japan and also because of its growing part on the Hong Kong market: it welcome for example deposits from Yokohama Specie Bank through its branch in Nagasaki, this latter tackled bills emitted by BIC customers on their Japanese correspondants. With a fighting spirit, BIC Hong Kong gained deposits from Banco Espanol Filipino – an institution linked with the Catholic Church in Philippina – and became its correspondant in Hong Kong. Taiwanese banks oriented some funds in the favour of BIC (for instance Bank of Taiwan in 1912 for a deposit of $120,000). Through intensified contacts it got access to a few local clients whose trading scope covered the whole Asia, for example (in 1912) the house AM Essabhoy, which provided remittances on Bombay, Shanghai, and Yokohama (for a $410,000 amount); or with Société d'oxygène et acétylène d'Extrême-Orient, a subsidiary of French Air liquide and Japanese interests, to become its banker in Hong Kong.

E. Credits to real estate and mortgage

When Crédit foncier d'Extrême-Orient, a Belgian company spreading its mortgage activities in China, decided to extend its scope from Shanghai to Hong Kong, the BIC branch became its godfather on the Hong Kong market and its re-financing bank; it accompanied its growth by providing it loans – for example an amount of $387,000 in 1912. This support was confirmed in the interwar, with the guarantee of Crédit foncier d'Indochine when real estate operations gathered momentum with pushing initiatives; and from April 1926 the director of BIC Hong Kong ended managing also this company, which was removed in the same building than the branch. A very few other clients obtained loans for real estate operations, notably the Hong Kong Development Building & Savings Society (for £312,000 in 1928) or local Chinese investors presented by CFEO, Lam Chor Yin and Lam Chai Leung ($557,000 in 1931).

F. Banque de l'Indochine Hong Kong and finance

In fact, the Hong Kong branch was not really involved in finance: large operations were conceived and led by HSBC; and when French interests were invited to the roundtable, the Paris BIC headquarters prevailed, sometimes with the support of the Beijing and Shanghai branches: that was the case for the purchase of the Hankou-Guangzhou railway in 1905. But BIC took part to the 7 per cent silver loan issued by HSBC for the Guangzhou Province in 1911 (an amount of $1,666,667 of the total of 7 million), through cash availabilities in its Guangzhou (2/7) and Hong Kong (5/7) branches, and thus it became a financial partner of HBSC and Deutsch Asiatisch Bank in this operation; the service of this loan was suspended during the civil war troubles in 1912, then restarted and the sum was repaid in July 1913 owing to the huge Reorganisation Loan to which BIC took part, but after negotiations where its Paris managers were the key representants, without any influence of the Hong Kong branch, which even did not broker any note. But it benefitted from a final return of the 1911 loan of 15.6 per cent (with a profit of $144,000 for a capital invested of $1,064,000).

BIC Hong Kong of course was not transformed into a genuine challenger of mighty British banks and HSBC: it was keen to recognize their domination and thus succeeded in collaborating with them for forex and treasury management. It only drilled a few niches, where it could get some profit from its availabilities: it became a “second-rank deputy-banker” for some trading houses which included it within their Pacific, Indian or Asia-European networks of clearing; it worked with Asian affiliates of French companies; and it took part to the Hong Kong day to day money market for lending on call or collecting deposits – only as a complementary cog of the Hong Kong banking machinery.
6. A first outlook on the outcome of BIC Hong Kong branch

After having determined the efficiency and the capability of the Hong Kong branch, a global survey has to gauge its ability to be profitable and to get some place within the business model of BIC.

A. The evolution from the 1890s to WW1

One first success of the BIC branch in Hong Kong was indoubtedly the building of a portfolio of skills which helped it cross conjuncture and face competition with resilience. Thanks to its compradore’s team or to the forward policy of its manager, it practiced true banking through an array of advances to traders (on promissory notes, equity, goods, gold or silver) and its commitments doubled from 1909 to 1912:

| Table 8. The credit positions of the BIC Hong Kong branch in 1909 and 1912 |
|------------------|------------------|------------------|--------------|
|                  | In March 1909    | In June 1909     | In September 1909 | In March 1912 |
| Total amount     | 1,928,950        | 1,856,000        | 1,344,290      | 4,050,000 (approximately) |
| Stable credits   | 3,122,000        |                 |                | 3,122,000 |
| Other short term credits | 928,000 (approximately) |
| Advances on promissory notes | 322,000 | 244,000 | 384,000 | 526,000 |
| Advances on equity | 814,000 | 728,000 | 490,290 | 785,000 |
| Advances on goods | 100,000 | 370,000 | 245,000 | 77,000 |
| Advances to Chinese bankers | 50,000 |                |                |               |
| Advances on gold and silver | 326,750 | 264,000 | 225,000 |               |
| Loan to Bank of Taiwan | 250,000 | 250,000 | 250,000 |               |
| Part of the Guangdong loan |                |                |                | 762,000 |
| Crédit foncier d’Extrême-Orient |                |                |            | 387,000 |
| Credit to a single trading house (AM Essabhoy) |                |                |            | 410,000 |
| Loans to BIC branches in Bangkok, Singapore and Shanghai |                |                |            | 727,000 |

Its second success was its history itself because it crossed crashes and recesses without collapsing, although the Hong Kong market faced hard difficulties in some years. The very cause of its foundations had been the bleak state of this market, which led to the retirement of Comptoir national d’escompte de Paris: almost at the same time, Hong Kong was shaken by a harsh crisis, which led to the fall of the Chartered Mercantile Bank of India, London and China in 1893; in 1897, the branch suffered from high tensions on money markets in the Far-East and a true monetary crisis in Shanghai and Hong Kong, with a stop put on import business; it required a few quarters to restart exchanges. Then it had to unfold its activities in 1905-1906 because of an economic crisis which struck Hong Kong (during the Russia-Japan war): business was at a standstill, inventories piled up in warehouses, exports had dwindled, commerce between Shanghai and Hong Kong was reduced, interbank currency exchanges was limited: “Chinese capitalists and traders refrain from any operation. They seem to wish to extend to all foreigners the boycott set up against Americans. The activities of our branch are deeply hit by such conditions.” But thanks to its keen compradore, the branch “was the sole in Hong Kong to get unharmed out of the numerous failures which occurred”, even if the recession was prolonged by a financial and economic crisis in Japan itself in 1906-1907.

Then political history shook banking: the Guangzhou population started boycotting Japan and Japanese trade and revolutionary troubles took place in south-western China, even in the French zone of influence in Yunnan; but uncertainty was crushed for a while and business took off again. All at sudden, BIC complained that “Hong Kong did never cross a so much intense crisis”: brakes were put on business, cash availabilities grew and interest rates fell, thus depriving the branch from profitable returns for treasury piled up in the name of Indochinese branches because of shortage of loans and investments. Nationalist moves followed to rekindle uncertainty, when antiJapanese demonstrations and riots in China and Hong Kong and their repression –even against Chinese
merchants – concerned businessmen, with a little crisis of trust and withdrawals of deposits from the Chinese community. BIC had to manoeuver to avoid bad credits or to lose money, and such qualities were still required later on in 1910-1911 when the Guangzhou troubles provoked general unease on the Hong Kong market, with even “a monetary panics in Guangzhou”, the rejection of the Chinese currency. Guangzhou declared its independency, its vice-king flew to Hong Kong: “Business suffer a lot from the present state of things and are almost at a standstill” and the repayment of the 1911 Kwantung loan was suspended for some terms in 1912 when the Republic was proclaimed in Guangzhou. After a revolt, the independance of Guangzhou, the escape of its vice-king to Hong Kong, and a row of panics among the Hong Kong community about the fate of its assets in Guangdong, general unease put brake on exchanges: “Business is suffering hard and are almost stopped” This stand-off culminated in 1913 when revolutionary troubles extended, then were crushed, with the flight of the Guangzhou governor on a French gunboat to Hong Kong. Because of such revolutionary troubles, “Hong Kong is calm but business are thoroughly stopped” and “operations are managed with an extreme prudence”.

This accumulation of events explain first that BIC Hong Kong did not try to challenge HSBC domination as it had to progress slowly to avoid bad business, involvement into risky credits to rash traders or into unwise forex operations. It was a good lesson of banking management, thus increasing the capital of knowledge and competence of this young branch.

B. The evolution from WW1 to 1937

One clue is that BIC Hong Kong was not the core of the model business of BIC: its weight against global returns of the bank was meager – for example from 1,2 to 7,6 per cent in 1916-1920. South China activities as as whole supplied a larger chunk of returns (from 5,6 to 11,2 per cent). But some revenues of other branches could not have been so high, had the Hong Kong branch not existed, because it injected fuel in the “banking machine” tackling flow of bills, funds, and forex all over southern Asia: Guangzhou, Saigon, and Haiphong benefitted from its action. Even if we might think that using HSBC or another British bank could have be equivalent, BIC Hong Kong first helped avoiding spreading information about the Asian activities of BIC to harsh competitors; second and conversely the branch could collect useful information about the Hong Kong market and moreover about trading houses active there, which could have consolidated the action of the other BIC branches.

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<tr>
<th>Table 9. Returns of the main BIC branch at the turn of the 1920s (in percentage)</th>
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<td>First term 1916</td>
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<td>Saigon</td>
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<td>Haiphong</td>
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<td>Hanoi</td>
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<td>From Pehn</td>
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<td>Touane</td>
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<td>Indochina and Cambodge</td>
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<td>China</td>
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<td>South China</td>
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<td>(Guangzhou, Mongtze and Hong Kong)</td>
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<td>Guangzhou</td>
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<td>Mongtze</td>
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<td>Hong Kong</td>
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<td>Beijing</td>
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<td>Singapore</td>
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<td>Paris</td>
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Anyway the interwar proved the efficiency of BIC Hong Kong: then its French competitor Banque industrielle de Chine was caught into the collapse of a big trading house in Saigon and Hong Kong in 1921 and its Hong Kong branch was victim of a run: “It is an industrial bank and although I will not say that is has backed some industrial concerns too far, it has, perhaps, backed them quiet far enough.” BIC reported that BIDC had “a bad customrship in Hong Kong”. Even if BIC went on working with it (for an amount of risks on forex and well pledged advances on goods of $80,000...
or $660,000 – of which $20,000 are still pending in 1923), it avoided committing too much money, which preserved it when BIDC Hong Kong failed on 2 July 1921, leaving some depositors out of their funds: “Beyond a group, of small depositors, on quotes as the largest creditors foreign missions for $2 million, and Italian Domenican missions, a few Chinese traders and bankers.” Even BIDC collapsed because its crippled business all over Asia, the bad management of its Hong Kong branch proved that the capital of experience accumulated by BIC Hong Kong was an efficient reality. The reopening of BIDC (on 16 April 1923) – bailed out in France in 1923 and taking in 1926 the name of Banque franco-chinoise – did not worry BIC because its challenger could never recover from its original difficulties. Strong capital of experience and competence were indeed required afterwards because the political and military events shook several times the Hong Kong market. The civil war in Kwangsi in 1922-1923 – between Sun Yat Sen’s troops and those of governor Cheng Kwing Ming, supported by Great Britain – disturbed business from Guangzhou to Hong Kong: “Chinese capitalist will abstain as long as the threat will hang on affairs.” Merchants from inner China reduced their purchases in Hong Kong where inventories piled up, which had effects on credit activities.

After some lull, social moves in Shanghai, Guangzhou (with a general strike), and even Hong Kong (with a general strike starting on 25 June 1925) led to a paralysis of business in the summer 1925 and to a run on some Chinese banks: “Happily we did not had loans on call to Chinese bankers.” “The whole business are paralysed and quite 60 large ship are immobilized in the port. Other ones had to overpass Hong Kong and to discharge goods in Manilla. Ship arrived last week from Tonkin left with their cargo. Merchandises already in warehouses cannot go out, and Chinese firms do not pay their bills any more.” The authorities had to supervise and organise the market: “The settlement of equity which ought to take place today has been delayed to 7 July, which caused that repayments for $350,000 on advances on equity on which I counted for my treasury will not come in before one month.” And British banks (HSBC and Bank of China) had to refinance Chinese banks through a $6 million, pledges by buildings owned by them. By chance, its prudence allowed the BIC branch to conclude favourably its forex contracts on sterling and USD, and its cash reached $1,212,000.

The crisis perdured for several months because strikers reinforced their action: “The shipping is still paralysed because the boycott of British goods goes on with determination in Hong Kong and Guangzhou and in all the ports of South China. All the French merchants of Shameen [Guangzhou] left to Shanghai where the silk market has been moved.” The BIC branch in Shanghai took thus in charge the silk business at the expense of the Guangzhou and Hong Kong ones... “Reds” – Republicans hostile to Beijing authorities – won some victories in the 1925 fall and even, from December, tempted a blockade of Hong Kong for a few months; and the situation of bankers became dangerous: “For six months, grave difficulties imposed to Hong Kong trade led to huge losses, and even the immediate resuming of relations would not bring back altogether the prosperity of the colony. Stagnation will continue for long: one cannot in a single day recover from six months of losses. The principal evil of which the colony is suffering is the gap of money. Because of the closure of neighbouring ports, quite all the export trade has stopped and the Hong Kong port, a port for transit and reexpedition, is cruely shaken. In front of the impossibility to bring advances back, to achieve remittances, in front of the dwindling value of pledges they have in hand, banks have cut their favours: they do not lend any more and they open credits only parcimoniously.” The 1925 and 1926 years were thus a dire period for merchants and bankers – beyond the fate of local working classes and citizens. Business in Guangzhou and the Guangzhou-Hong Kong relationship were almost frozen: “In Guangzhou, not a single shipment has been achieved directly to Europe or America up to October [1926]. Only during the two last months of the year [1926], a slight resumption has bee registered, but the fall of silk prices causes huge losses to Chinese spinning mills of which many are in bad situation.” In November 1926, ships resumed the traffic between Guangzhou and Hong Kong; the branch could breathe somehow: the first payments of bills occurred, as it received at last $24,000 from Franco-Chinese Trading and $20,000 from Pinguet; the equity market was reopened, renewing the liquidity of its $3,736,000 portfolio of advances on equity.

Amid such a crisis, BIC Hong Kong could not but be patient and mourn about unbusy quarters... It even suffered some loss when one of its big clients, Gerin-Drevard, active in Guangzhou, became
insolvent on January 1926, and credits for FRF 1,022 million were then pending; its main client, also active in Guangzhou, Franco-Chinese Trading, faced a financial crisis in January 1927 and froze its $310,000 debt towards BIC. “You don’t ignore the very grave crisis which, since eighteen months, is raging on our place: import trading notably has been much stricken, especially for goods coming from Britain. Our client was much endebted: on 31 December 1925, we had in portfolio bills drawn on them for a total amount of £27,952 and FRF 376,323. The situation, everyday worst, did increase their embarrassment: on one side indeed no new business was possible; on the other side the local market was thoroughly blocked and inventories were piled up by importers. Last, as the boycott of Hong Kong lasted without any hope of a near agreement, our clients tried then, like many other ones, in order to repay their debt to our bank and to get rid of goods which lost value every day, to sell them in Guangzhou and other ports. The result was an important loss, either because of the confiscations achieved by strikers or by arbitrary taxations, and because of the depreciation of the value of goods, which reached 40 per cent or more. Last, the exchanges crisis, which occurred in last September, caused new losses to Franco-Chinese, which had not fixed exchange values for its bills in sterling and had thus to repay them at increased amounts. At the end of December 1926, for pending bills for £18,790 and FRF 128,208, we had received $95,355; and the deficit today is of about $120,000.” The branch and the Low brothers agreed on a five-years repayment of the debt through promissory notes and its accounts were thus cleaned. But such a failure reveals the intensity of the crisis endured by bankers in Hong Kong and Guangzhou because of social and political upsurges: working in Hong Kong was not then an easy task, conversely with the image of an ever-prosperous emporium.

This crisis had further negative effects on the BIC branch: First it had to declare a loss on forex because on errors on interbanking operations when it kept too longly an important portfolio of sterling just when that latter fell on the Shanghai and Hong Kong markets because of nationalist moves in Nankin. Second, when the Hong Kong clients suspended their payments, the compradore could not apply its pledge because it had drawn on its availabilities during the previous quarters in 1926 and the crisis persisted: against a pledge of $175,000 (property) he had to guarantee the debt ($1,052,302, guaranteed by $298,000 in equity and $1,320,000 in property) of an important Chinese capitalist, Lee Hy San, the leaseholder of the Macao casino. All in all, the crisis put brake on the repayment flows and had the branch be stuck in bad credit.

Business resumed its normal course in the mid-1927 and in 1928-1929, following the normalisation of Chinese affairs, and BIC Hong Kong could recover momentum. But the autumn general crisis of trust had effects on Chinese banks, because of withdrawals of foreign deposits; in consequence the branch had to draw on its treasury to refund Chinese deposits (for about $500,000 to “friendly bankers”) and it had only $872,000 in cash against $800,000 deposits in December. Bankers met to talk about tensions: “The monetary and forex situation of our market is completely desorganised.” Because of the fall of rates imports were thoroughly stopped, silver values fell against gold and currencies, and capital started flying Hong Kong because of silver basis values. Prudence prevailed, reserves in cash were kept high, Paris line of credit was used slowly. But the reports for the 1930-1935 years foster a perception of “business as usual” and even of growth, which contrasts with the murky reports of the 1923-1927 events. The branch took profit from its capital of experience and selected business drastically, but it tackled then important trading and forex operations. One turning point might have been September-November 1935, with the fall of some Chinese banks (Bank of Guangzhou, etc.) which caused “intense nervousness in business”. The counterpart of the prudent attitude of BIC Hong Kong was its huge stock of cash (about FRF 10,672,000 in June 1935) although it disposed of large lines of credit by BIC Paris (FRF 16,900,000), London (£250,000), and New York (USD 9,000) (and had to pay them interests): its success was thus linked with immobility except about forex arbitrages. This led to question the usefulness of such a branch because it did not have use of its funds because of the general situation of the Hong Kong market.

The evolution of BIC Hong Kong depended therefore intimately of the very Chinese history, its nationalistic moves, its civil war, etc. But, despite a few errors with some Guangzhou clients, who imposed important delays in the repayment of their debts, the branch crossed the tumultuous years without a crisis of trust or a run, without important unbalance of its business. The compradore was
an efficient and reliable intermediary (except in 1927 when he too was swallowed by the insolvency of some clients); the manager was cautious enough to avoid speculations and overborrowing. This might prove that the portfolio of skills and the capital of competence and experience of the branch had matured since the 1890s and that it had succeeded in maintaining the French flag against British competition and thus kept active its function of sustaining French business in South-East Asia.

7. From unfolding to rebirth (from the end of 1930s up to mid-1950s)

But History caught up with BIC Hong Kong, which had to submit to the twists and turns of political and military events in South China and Asia.

A. The apex of the function of Asian banking hub

First, Japanese bombing on Guangdong and the threat of invasion paralysed Hong Kong business, and the harbour was jammed with goods unloaded since the fall which could not be sent to North China. Then the successes of Japanese army led to a reshaping of the network in China, and BIC Hong Kong became in 1939 the keystone of this banking architecture: main tasks assumed by the Shanghai branch were transferred in 1939-1941 to the Hong Kong one. It had to survey the records of Chemin de fer de Nanning, of which BIC managed banking and financial (for the service of a loan) flows; it became the representative of French airline Air France in China when it opened in 1937 a Hanoi-Hong Kong line. “Our branch takes part now, more than before, to truly Chinese business”, and it became officially the representative of BIC in China in April 1939, in charge with the management of the whole circulation of treasury all over (accessible) China, especially for financial payments due to equity and bonds bearers. Then it collected the banking business of the Guangzhou branch after Guangzhou merchants flew to Hong Kong in the summer 1939 (mainly for bills issued on French purchasers of silk).

B. Hard times because of wars and revolution

This apex was much short-lived because of Japanese offensive; and business was at a standstill during Japanese occupation, all the more because the assets of banks in dollars had to be exchanged against “military yens” to finance indirectly the war – which explains huge losses in 1945 because of the depreciation of the yen. The role of BIC Hong Kong was rubbed off when Japan imposed itself from January 1941 as the sole purchaser of Indochinese commodities, which short-circuited classical networks. Then in 1945 BIC Hong Kong was divided between resuming business as usual – for instance to be reinserted within economic activities of South China and even into goods flows provoked by civil war (but for the moment we lack archives records) – and drawing lessons from the progress of Communist power. Beyond its effects on the Shanghai system and the loss of assets, this one put an end to the “business model” of BIC in the South-China area: Hong Kong was no more the hub of commercial and banking flows for merchants active from Yunnan to Guangdong – where the Guangxu branch fell on the Communist side as soon as November 1949. But merchants succeeded in selling goods piled up in 1945 when war was resumed in China to the Philippines and Malaysia, cash disponibilites were reconstituted and the machine of credit restarted, which favoured BIC Hong Kong.

Up to 1949-1950, it preserved its relation with its Shanghai and Tien Tsin sister branches and reaped thick profits, for instance thanks to forex operations on USD. Paradoxically, anticomunist France (fighting in Indochina) had preserved its commercial relation with China even after the Communist success, through a special agreement (“special operations cleared between France and China”). And BIC’s position was strong because it was among the very few foreign banks which had not asked for the liquidation of its assets and had negotiated in direct with Maoist authorities in February 1950, which led to a favourable attitude of Chinese authorities. Despite the unfolding of activities in China (because of nationalisations and the blockade of Chinese assets by the USA in December 1950) and the closure of BIC branches in Beijing, Guangzhou, and Hankeou in January 1952, BIC kept ties with Chinese authorities, even if the balance of power had moved towards Beijing. This explains several basic commercial contracts to
be financed, for example in favour of trading companies purchasing sesame seeds, hemp grains, or crude soya bean oil

C. Considerations on a strategical move

Considerations were anyway argued among Paris BIC direction which raised doubts about the future of its Hong Kong branch: the previous strategy as a hub sustaining French interests from Indochina or throughout South-China commercial markets seemed to meet a stalemate because of the centralised type of economy which was progressively set up in Communist China. Could Hong Kong provide a branch with fresh opportunities of business? On the small level of BIC Hong Kong, arguments about strategy had to anticipate future. As it is well known, the flow of immigrants from China brought also merchants and capital, which placed the Hong Kong market at the core of a new business model, enlarged to the whole Chinese diaspora throughout Asia, before exports to continental China was resumed through what became the “gate to Red China” (despite the United Nations embargo in 1951) and before Hong Kong asserted itself as a new hub for intra-Asian and international trade. But these perspectives opened doors to another story: the emergence of a new banking business model in Asia for French institutions, which had nothing in common with the history of BIC Hong Kong from the 1890s to the 1950s.

Conclusion

From this historical survey, a first conclusion has to be drawn: French banks were not so much isolated and confined to neighbouring European markets places, and important parts of these firms disposed of an international purpose and scope and some departments fostered forward policies of development abroad. They challenged thus the hegemony of the City in some areas, and they projected a forward policy even in Asia. Anyway French banks (Comptoir d’escompte de Paris, then Comptoir national d’escompte de Paris; Banque russo-chinoise; Banque industrielle de Chine; Banque de l’Indochine) had rather work on the Shanghai market because its growth was substantial and mainly it was the gate to the huge Yangze Kiang area or in Beijing to get access directly to opportunities of loans and bonds issuing. This explains that the Hong Kong market had not been first conceived as a priority for French banking interests because it lacked such impressive commercial or financial outlooks. Such reluctance was increased by the leadership of British banks in Hong Kong and particularly the hegemony of HSBC; and we saw that, in the 1890s, the board of Banque de l’Indochine did not favour giving financial leeway to its Hong Kong branch, doubting of its profitably and even of its viability.

Anyway the Hong Kong banking market got larger attention from French interests, essentially because of the very promotion of French business in South-East Asia. First it was relevant that some French bank acted as a correspondent in Hong Kong instead of British ones to contribute to the collection of direct information and to the financial resiliency of the commercial chain linking Indochina, Hong Kong and some Asian markets for rice trade: there was an obvious complementarity between BIC activities in Indochina and its Hong Kong branch. Second, French merchants fostered more and more associations with Chinese partners in the area covering west-southern China, from Yunnan to Guangdong and eastwards to Hong Kong: BIC Hong Kong could thus find growing activities through these exchanges, either for export or for import; and it proved therefore its usefulness to the promotion of French interests in Asia, in the wake of the policy defended by Paris Foreign Affairs, although on a secondary position against Sino-British business and banking. Third, a whole circuit was built which linked both areas of business (the Indochina-Hong Kong one; the west-southern China one) and worldwide exchanges: from Saigon and Haiphong to Hong Kong and from Yunnan-Guangdong-Hong Kong, huge amounts of remittances of bills and of exchanges on currencies (piasters, dollars, pounds) were carried – sometimes with a step in India – up to London (mainly) and Paris, and BIC took part to this chain of banking and of profits.

This three activities, based on the conception of the branch as a bridgehead on the Hong Kong market, provided BIC Hong Kong with its legitimacy, because it could develop a three-forked strategy alongside geographical areas. And, because of its prudent management (owing to the managers and expatriates, or to the team of the compradore), it proved that it could (generally)
avoid bad loans and build a portfolio of skills and a capital of experience, which reinforced its legitimacy: cash and currency transfers, forex, banking (with basic documentary credits and also with an array of advances: on promissory notes, on goods, on equity, etc.), management of deposits, became classical practices; despite the independant moves by Guangzhou and Shanghai branches, it could value is direct acess to information, its knowledge of the interbank market, and therefore its advantage edge in front of assymetry of information. Fourth, this long-term development succeeded in strengthening the capital of competence of Bic Hong Kong: it could therefore took advantage of this latter and pick up some niches on the Hong Kong market itself, generally in co-operation with British banks (for interbanking forex or money market activities), but also with direct contacts with a few big European trading houses, and more and more with Chinese and Indian ones. Sure this breakthough on the Hong Kong market kept a mere medium-sized dimension, because sensible managers avoided competing with British banks; but they seized some opportunities to get in touch with a few Japanese, Taiwanese and Chinese companies. And finally the outcome of such strategy was some kind of a little internationalised branch, working in west-southern China and inserted within the network of the Hong Kong market all over Pacific Asia.

Notes

15 M. Meuleau, op. cit., p. 199.
16 Letter from the branch manager to Paris headquarters, 5 August 1937. Banque de l’Indochine lent FRF 44 million to help BIDC repay its deposits, with a four-year term. Correspondance between the Hong Kong branch and the Paris headquarters of Banque de l’Indochine (archives of Banque de l’Indochine, Crédit agricole SA, or CASA, Archives). We do thank Roger Nougaret, the head of CASA Archives, for opening such documents, and its staff for its collaboration.
17 Ibidem, 6 March 1895
18 Ibidem, 22 July 1924.
20


Letter from the branch manager, 13 June 1924.

Because of disordered practices, or even a small fraud by the accountant in 1925.


We use HKD for Hong Kong dollars, and USD for US dollars.

Letter from the branch manager, 6 February 1906.

Ibidem, 21 August 1906.

Loo Lim Yeuk was presumed to be his financing support; he belonged to a rich family with an estimated fortune of $1,500,000, and intended to provide, with his brothers, a $150,000 surety (through pledged property) [Ibidem, 5 May 1906]; but it appeared that he was the tycoon of game and lottery in Macao and Canton, which was no relevant for a bank... After some difficulties, because of the harsh recession of these times, he was replaced by Li Shek Pan, rich with a fortune of $600,000, who already guaranteed the compradore of the Bangkok branch, and brought a surety of $100,000 to Ho [21 August 1906].

Ibidem, 5 March 1910.

Ibidem, 17 August 1922.

Ibidem, 7 March 1914.

Conversely with the HSBC branch, where the compradore flew in September 1912 and left a deficit between $500,000 to one million (Ibidem, 4 October 1912).


Ibidem, 3 February and 28 April 1900.

Ibidem, 18 January 1929.

Ibidem, 7 March 1905.

Ibidem, 14 February 1895.

Ibidem, 6 March 1912.

Ibidem, 24 November 1908 (at 5% for four months).

Ibidem, 30 March 1909; the discount rate in Saigon then was 8.75%.

See M. Meuleau, op.cit., p. 281.

Letter from the branch manager, 25 May 1931.


Letter from the branch manager, 8 April 1935.

Ibidem, 6 September 1935.

Ibidem, 21 September 1938.


Letter from the branch manager, 17 May 1929.

Ibidem, 6 March 1912.

Ibidem, 18 January 1929.

Ibidem, 6 March 1912.


Letter from the branch manager, 5 January 1901.

Ibidem, 11 March 1897.

Ibidem, 5 November 1897.

Ibidem, 19 November 1937.


Letter from the Banque de l'Indochine Saigon director, 4 March 1889, in M. Meuleau, op.cit., p. 130.

Yazuo Gonjo, op.cit., p. 82.


Report on the rice market in Hong Kong, 25 May 1931.

It was managed from 1907 by Compagnie française des Indes et de l'Extrême-Orient, created in 1903 by the Combarieu family; 5 May 1907.
Charbonnages du Tonkin was a Franco-British company, which had been founded by Paul Charter, at the end of the 19th century.

Letter from the branch manager, 24 June 1895.

Ibidem, 9 September 1896.

Ibidem, 29 December 1925, about Charbonnages du Tonkin, which left its funds by HSBC because its suppliers had accounts in this bank.

Ibidem, 26 March 1924.

Ibidem, 20 November 1924.

Ibidem, 23 February 1931.

P. Morlat, op.cit., p. 3.


Letter from the branch manager, 7 May 1904.

Ibidem, 5 November 1907.

Ibidem, 21 July 1908.

Ibidem, 9 September 1920.

A bomb attack struck a dinner in honour to French general governor Merlin visiting Canton: he escaped it but the manager of Banque de l’Indochine branch was seriously wounded and its cashier killed (20 June 1924).

Letter from the branch manager, 26 March 1924.

Ibidem, 3 May 1929, with a credit of $23,250.

Ibidem, 22 September 1929.

Ibidem, 22 August 1930.

Ibidem, 7 July 1937.

Ibidem, 5 October 1925.

Ibidem, 17 January 1927.


Letter from the branch manager, 19 March 1907.


We refer to an article of the Hong Kong Daily Press, 3 June 1910 – but we are not sure of the accuracy of these figures.

Figures supplied by Banque de l’Indochine Hong Kong, 1933.

Letter from the branch manager, 19 March 1907.

Ibidem, 6 March 1912.

Ibidem, 11 March 1897.

Ibidem, 29 April 1911.

Ibidem, 3 February 1900.

Ibidem, 28 March 1895.

Ibidem, 11 March 1897.

Ibidem, 19 March 1907.

Ibidem, 7 March 1905.

Ibidem, 28 February 1925. The branch received bills emitted by Chinese merchants in Mongtseu (Mongze) on Indochinese importers of tin lingots refounded in Hong Kong.

Ibidem, 24 June 1895.

Ibidem, 5 January 1901.

Ibidem, 13 June 1924.

Ibidem, 5 October 1925.

Ibidem, 15 December 1930.

Ibidem, 14 April 1931.

This scheme is inspired from the one presented by M. Meuleau, op.cit., p. 159.

Letter from the branch manager, 24 June 1895.
108 Ibidem, 13 March 1897.
110 Letter from the branch manager, 10 November 1909.
111 Ibidem, 28 April 1908.
115 Ibidem, 19 April 1926.
116 Ibidem, 14 April 1931.
118 Letter from the branch manager, 17 June 1911.
119 Ibidem, 17 July 1913.
120 Ibidem, 10 November 1909, 6 March 1912.
122 Letter from the branch manager, 11 December 1897.
123 Ibidem, 7 April 1906.
124 Ibidem, 5 May 1906.
125 Ibidem, 21 August 1906.
126 Ibidem, 5 November 1907.
127 Ibidem, 31 March 1908.
128 Ibidem, 3 July 1908.
129 Ibidem, 6 July 1909.
130 Ibidem, 17 June 1911.
131 Ibidem, 11 November 1911.
132 Ibidem, 11 November 1911.
133 Ibidem, 25 July 1913. Then, from Hong Kong, a German boat shipped the escaper to Singapore.
135 Ibidem, 9 August 1913.
137 Hong Kong Telegraph, 11 January 1921.
138 Letter from the branch manager, 6 May 1921.
139 Ibidem, 5 July 1921.
140 Ibidem, 7 July 1921.
141 Ibidem, 19 June 1923.
142 Ibidem, 15 December 1922.
143 Ibidem, 23 June 1925.
144 Ibidem, 2 July 1925.
145 Ibidem, 23 June 1925.
146 Ibidem, 11 September 1925.
147 Ibidem, 30 December 1925.
148 Ibidem, 30 December 1925.
149 Annual report of Banque de l’Indochine for 1926, 19 May 1927.
150 Ibidem, 3 November 1926.
151 Letter from the branch manager, 17 January 1927.
152 Ibidem, 17 January 1927.
153 Ibidem, 11 April 1927.
154 Ibidem, 3 December 1929.
155 Ibidem, 14 December 1929.
156 Ibidem, 6 September 1935.
157 Ibidem, 1 February 1938.
159 Letter from the branch manager, 21 April 1939.
The executive manager in Indochina met British authorities in Hong Kong on 8 January 1941 to inform them of the necessity of redeploying Indochina’s exports from France and Hong Kong to Japan.


We did not yet get access yet to archives records on this 1945-1960 period (except for the year 1953), because of uncertainty about them in the archives warehouse, pending further investigations.

Letter from BIC Hong Kong qbranch manager, 9 January 1953.


M. Meuleau, *op.cit.*, pp. 460-461. We did not yet get access yet to archives records on this 1945-1960 period (except for the year 1953), because of uncertainty about them in the archives warehouse, pending further investigations.

Letter from BIC Hong Kong qbranch manager, 19 January 1953, 9 February 1953.


