Sterling, Hong Kong and China in the 1930s and 1950s

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At first glance there appears to be little continuity between the 1930s and the 1950s in international monetary policy. These decades were certainly very different eras for sterling and for international financial and monetary relations generally. For sterling, the financial crisis of September 1931 marked the end of the inter-war gold standard of fixed exchange rates and ushered in the first general experiment with floating the pound. This was followed by a reversal of Britain's traditional free trade policy with the unprecedented increase in tariffs in 1932. Throughout the 1930s the international financial and monetary system suffered a series of crises associated with competitive devaluation, economic nationalism and protectionism. After the interruption of the Second World War, the new international monetary system formalised at Bretton Woods in 1944 was specifically designed to avoid the interwar crisis associated with floating exchange rates. It established pegged (although adjustable) exchange rates and an agenda to reduce trade barriers to promote multilateral trade and payments. However, the combination of fixed exchange rates and the post-war dollar shortage meant that most countries could not afford to allow their currencies to be convertible. In common with most currencies, sterling remained inconvertible at a fixed exchange rate until the end of 1958.

Nevertheless, there are continuities in the British approach to creating complementary monetary and trade blocs focussed on the Empire and Commonwealth. In both the 1930s and the 1950s there was an attempt by the British to establish a complementary system composed mainly of members of the Empire. In each case this was a response to the crises rocking the international monetary and trade systems in these decades. In the 1930s the depression, collapsing primary product prices, rising protectionism and capital flight prompted defensive action such as the Sterling Bloc and Imperial Preference. In the 1940s and early 1950s, the dollar shortage and chronic British balance of payments fragility made the continuation of wartime controls necessary. This led to the formalisation of the sterling area among whom relatively free trade and payments was supported by strict trade and exchange controls against the rest of the world.

A second aspect of continuity was that the special position of Hong Kong and China in the international monetary system in the 1930s was repeated in the post-war period with important implications for their relationship with Britain and for the international monetary system as a whole. After the establishment of the PRC ended China's economic relationship to the USA, sterling emerged as an important part of China's international links. The global environment of the 1950s created opportunities for Hong Kong that arose out of the seeming necessity in 1941of taking Hong Kong into the sterling area while still allowing a parallel floating exchange rate to operate. After the Communist victory in China in 1949, political necessity and practical considerations combined to allow this situation to continue, even though the trade entrepot role of Hong Kong was undermined by the US and United Nations embargoes. This left Hong Kong in a unique position in the international monetary system with convertibility to sterling and other sterling area currencies but also convertibility to the US$ at a floating exchange rate. Moreover, the embargo did not end Hong Kong's entrepot role, partly due to the competitive advantage that the free market delivered in terms of price. As political regimes changed across East and Southeast Asia, Hong Kong's colonial political stability, lax regulation of the financial sector, and the free exchange market proved unrivalled attractions for Asian capital as well as capitalists. These regional relations were the foundation of Hong Kong's emergence as an international financial centre in the post-war period. This paper addresses the foundation of Hong Kong's special status in the 1930s and the implications of this for its relations with China and the rest of the world in the new post-war international monetary system.

Sterling in Asia in the 1930s

After the devaluation of sterling in September 1931 several countries, mainly in the Empire and Commonwealth, but also Scandinavia, maintained their pegged exchange rate to sterling. It made sense for those countries that traded mostly with the UK to avoid destabilising exchange rate fluctuations. As sterling became more stable and confidence was restored, other countries also began to peg their currencies to sterling.[1] This suited Britain because it created an area of exchange rate stability that it was hoped would facilitate trade in an otherwise volatile world. Moreover, the devaluation of sterling up until 1933 gave British exports a considerable competitive advantage within the sterling bloc. Thirdly, the overseas members of the Sterling Bloc were mainly primary product producers that were able to supply British industry with essential raw materials.[2]

For those countries that had not been on the gold standard, the situation in the 1930s was very different. In the late 1920s, the monetary systems of China and Hong Kong were crippled by the falling price of silver on which their currencies were based. The emerging crisis led the British government to investigate the functioning of the currency systems of Hong Kong in 1930 and of China in 1935.[3] The investigation in 1930 established the principle that the Hong Kong currency must be linked to or at least have the same basis as the Chinese currency.[4] This was not so much because of the entrepot activity of Hong Kong, narrowly defined as the physical shipment and transhipment activity in the port. Rather, it was argued that introducing barriers between the Hong Kong and Chinese currencies would critically undermine the international financial services offered in Hong Kong. These services included financing trade and receipt of remittances, on which Hong Kong's prosperity depended. While the Chinese currency was linked to silver, there was no capacity to cover forward contracts in Hong Kong dollars if the latter currency were based on gold or sterling. This reflected the recognition by Britain that Hong Kong was monetarily closer to China than to Britain. In the post-1945 cold war era that was to follow, it was the persistence of this economic reality that over-rode political factors and pushed Hong Kong into a unique position in the international monetary system.

The report on Hong Kong currency was completed in May 1931 but was quickly overtaken by events as Britain itself went off the gold standard in September and started a controlled float of the pound. The recommendations of the report to establish a paper legal tender and a currency board were, therefore, postponed. From 1933 the monetary system in China began to deteriorate due to regional political difficulties and the poor trade environment due to the global depression. Even more importantly, clumsy British and American attempts to support the world price of silver led to wide fluctuations in the sterling-HK$-Chinese exchange rate and silver began to be exported in unsustainable amounts. As the collapse of the Chinese currency prompted capital flight, the HK$ climbed to a premium of 45% by October.

In response to the crisis, the British became involved in the reform of the Chinese currency. In 1935, Leith-Ross, chief economic adviser to the government, was sent out to advise the Chinese on currency reform. He suggested the introduction of a sterling exchange standard facilitated by a loan of £10 million, a sum eventually doubled by negotiations finally concluded in 1937.[5] However, the collapse of the Chinese monetary system ran ahead of Leith-Ross' negotiations and the Chinese government chose another interim route. Since it seemed likely that the USA could provide aid to the beleaguered Chinese government, China opted to keep its political and monetary allegiances balanced between the USA and the UK. In November 1935, the Central Bank of China abandoned the silver standard and introduced the convertible fapi that was pegged to both the US$ and to sterling. The rate to sterling, however, was kept fixed while the US$ rate was allowed to adjust until September 1936.[6] From this time the £-$US rate began to fluctuate, forcing the Bank of China to accommodate these fluctuations by widening the spread. For the next year the target was stability against the two currencies until the opening of the Sino-Japanese War in the summer of 1937. For almost a year during 1936, however, China was essentially on a sterling standard and this allowed Hong Kong also to be placed on a sterling standard.

The 1935 Currency Ordinance of Hong Kong established an Exchange Fund that held sterling against the issue of paper currency by three main Western banks in the colony.[7] Because the Chinese currency was linked to both the US$ and sterling, the Exchange Fund was legally allowed to back the currency issue with a variety of assets, but in practice it operated almost exclusively in sterling.[8] In December 1935 the exchange rate of the HK$ was successfully stabilised at the prevailing rate of 1s3d 3/8, while the Chinese Yuan was stabilized at 1s 2d 3/8.

In the case of China, Britain's interest in promoting sterling as the base for the currency was to stabilise the economy, to support current and future British business interests there, and also to restore an effective fiscal system that would allow the repayment of China's considerable external debt. The goal in their Hong Kong policy was to stabilise the Hong Kong currency but to keep it in line with the Chinese monetary system in accordance with the position established in the 1931 report. These motives led Britain to support China's currency first through the Sino-British Stabilization Fund of March 1939 (made up of banks) and then by the US-UK-China Stabilisation Board of 1941 (directed by governments). In June 1939 the Fund was forced to relax its support of the fapi under pressure of speculation, and the currency depreciated to 3 1/4d by August.[9] A month later, the operations of the Hong Kong Exchange Fund were made public and the HK$ exchange rate was stabilised at only a slightly depreciated rate with a spread of 1s2d 13/16 – 1s3d. The strength of the HK$ compared to the Chinese currency prompted currency substitution in China that would be a recurring theme in the 1940s with important implications for political and economic relations between the two.[10]

British Exchange Banks and Imperialism

The attempts by the British government and by the British banks operating in China to stabilise the Chinese monetary system might be considered to fit neatly into the idea of imperialism based on gentlemanly capitalism as described by Cain and Hopkins.[11] They view British policy in the inter-war period as an effort at 'continuing her financial control, both to bind the Chinese government and to fetter rival powers'.[12] In terms of sterling and currency reform they assert that this policy was effected through the Hongkong Bank, Leith-Ross, and Cyril Rogers, British adviser to the new Central Bank of China.[13]

The Hongkong Bank had a long and successful relationship with China. It was the most important foreign bank in China and had long dominated international finance there, but its interests did not always accord with those of London, nor did they always act in accordance with British imperial policy. Leith-Ross, for example, roundly criticised the Hongkong Bank for not supporting Britain's political goals of stabilisation in China.[14] Another important British exchange bank in China, the Mercantile Bank, was suspected of undermining the activity of the Stabilisation Board to its own profit and those of its customers.[15] Green and Kinsey describe how the aggressive and entrepreneurial approach of the Shanghai manager of the Mercantile Bank to foreign exchange trading in the late 1930s generated considerable profits for the bank.[16]

When assessing the possibility of informal imperialism operated through banks, it must be remembered that China was not a passive recipient of imperial attention. King has shown that it was the Chinese government that urged the Hongkong Bank to intervene in China's currency policy because the government and official financial institutions were unable to act effectively. After the Nationalist government gained power at the end of the 1920s, the Hongkong Bank's role reduced to that of a ‘normal’ exchange bank rather than operating for official purposes.[17] During the crisis caused by the rise in the silver price in 1933-34, however, H.H. Kung and TV Soong (of the Bank of China) drew Henchman of the Hongkong Bank into a secret partnership to support the exchange rate of the Chinese dollar. His success earned him a gold wristwatch and the confidence of Soong and Kung that put the Hongkong Bank at the forefront of similar support schemes over the next few years.[18] This account shows that the Hongkong Bank was drawn in to help the Chinese with their monetary difficulties by the Chinese, not by the ‘imperial’ British government.

A further accusation of imperialism through monetary relations is the claim that the operations of the Stabilisation Fund and Board favoured the Shanghai International Settlements with sales of foreign exchange over the needs of the country as a whole. The Hong Kong Committee of the 1939 Stabilisation Fund operated its policy through sales of scarce foreign exchange almost exclusively to the free market in Shanghai. After the reorganisation of the Stabilisation Fund into an intergovernmental Stabilisation Board of 1941, H.H. Kung resisted this so-called ‘Shanghai Policy’, although it was not abandoned.[19] The new American leader of the Board, Fox, agreed with Kung and roundly criticised merchants and speculators in Shanghai for ‘wasting’ the resources of the Fund through speculation.[20] However, the Board also concentrated on the Shanghai exchange market. Chou noted that 90% of the foreign exchange sold by the Stabilisation Board in the last months of 1941 were applications from Shanghai and Hong Kong to finance imports into the International Settlements.[21] It must be remembered, however, that Shanghai was the primary market that signalled the exchange rate for the rest of the country and so was the natural target to support the Chinese currency. Also, the industries in the international settlements required foreign exchange to continue to provide employment and subsistence for the flood of Chinese taking refuge there during the Japanese invasion.[22]

The close relations between the British government, British exchange banks and the Chinese Nationalists in the management of China’s sterling and foreign exchange operations was born out of the panic and chaos of the 1930s. By 1935 China had opted not to set its future exclusively with Britain and sterling and instead linked its currency to both the US$ and the pound. As China came under military attack and political stability was threatened, however, the devolution of currency problems to

British exchange banks in 1939 and then to the British and American Governments in 1941 was a pragmatic move. They also signalled a move away from primary alliance with Britain and sterling, as the Americans seemed better placed to promise aid and loans in the future. British influence appeared destined to be eclipsed by the Americans in Asia as elsewhere. However, the Cold War marked the retreat of the USA from China and the general economic and political situation in the late 1940s and 1950s renewed the close interests of China, Hong Kong and Britain.

Hong Kong in the Post-War Sterling Area

In August 1949 the Treasury boldly declared in a telegram to the British embassy in Tamsui that 'Sterling has been in the past and will be, we believe in the future, the currency most generally used for trade throughout the Far East and Southeast Asia...In this connexion the close proximity of the great sterling entrepot of Hong Kong has considerable relevance'.[23] The reality was much more complex.

During the 1930s, it was shown that the role of sterling in Asia was different than in other parts of the sterling bloc. Although a British colony, it was recognised that Hong Kong's monetary links were closest with China and this precluded bringing Hong Kong onto a sterling standard until 1935. The complex political and economic relationship between Hong Kong, China and Britain after 1945 also left Hong Kong in a special category in its monetary relations.

During the war Britain imposed new exchange controls that formalised and narrowed the inter-war Sterling Bloc. Members of the sterling area agreed to maintain their foreign exchange reserves in sterling (thus pooling their other exchange earnings in central reserves in London). They also operated a strict common exchange control to contain the convertibility of sterling, while allowing relatively unrestricted exchange among themselves. This created a large (although closed) area of transferability of sterling. The members of the sterling area that emerged from these controls at the end of the war were the Commonwealth (except for Canada with its strong links to the US$), all the British colonies and a few others (mainly in the Middle East).[24]

As a colony, Hong Kong's natural political place was as a member of the sterling area, and in August 1941 they were brought into the sterling area to complement the blocking of Chinese sterling balances and the currency stabilisation. This relationship was sustained through the chaos immediately after the Japanese surrender in 1945. Given the new post-war international monetary system based on fixed exchange rates and very limited convertibility, however, there soon emerged considerable debate between the Bank of England and the Treasury over whether Hong Kong should be excluded from the sterling area.

Because of the pre-war pattern of Asian trade, Hong Kong operated a free market in US$ against the HK$ and therefore also against sterling so long as the colony remained in the sterling area. As in 1930, it was accepted that in order to maintain its entrepot competitiveness, Hong Kong needed to have a floating exchange market so long as China and other East Asian ports had them.[25] The question, therefore, was whether the political damage that would ensue from ejection from the sterling area outweighed the possible monetary damage to sterling if the HK$ remained convertible to both sterling and the US$. If Hong Kong were excluded, strict exchange controls would have to be imposed on relations between Britain and Hong Kong and it would be the only colony not linked to the benefits of the sterling area. A further issue was the possibility that the Chinese would dump the HK$ that they had accumulated during the war if they thought that convertibility to sterling might be suspended, with serious consequences for the colony.[26] In November 1947 J.S. Beale of the Bank of England noted that 'Hong Kong currency circulates in South China and therefore, from a financial and monetary point of view - particularly in the foreign exchange field - Hong Kong should be considered as a part of China rather than a part of the sterling area'.[27] This, however, was not practical politics during the 1940s.

In 1948, Portsmore was sent from the Bank of England to investigate, and on his advice the Bank of England recommended that Hong Kong should remain in the sterling area, although some extra restrictions were imposed to isolate Hong Kong's US$ market from sterling. He recommended that the free market should be against US$ only, local banks should confirm that the purpose for which sterling was sold was legitimate, there should be a dedicated Exchange Controller and staff rather than a secondment from the Hongkong Bank, and legislation should be introduced to control the activity of native banks.[28] Portsmore reported that 'the most important bankers and traders in Hong Kong are unanimous in regarding exclusion [from the sterling area] as a disaster for Hong Kong'.[29] Some in the Treasury (NE Young in particular), however, wanted to keep open the option of excluding Hong Kong in the future.[30]

After considerable debate, the Bank of England view was put to the Chancellor of the Exchequer and in August 1948 local 'authorised' banks were designated to ensure that sterling debits were for legitimate purposes and not for cheap sterling deals.[31] The authorised banks could not engage directly in the free exchange market, although in June 1949 Portsmore noted that Chinese compradores of these banks dealt in the free market for their customers 'in all cases'.[32] The delegation of exchange control to the authorised banks, however, did not close the matter and the expulsion of Hong Kong from the sterling area was reconsidered periodically throughout the 1950s.

In August 1949, a year after this first decision was taken (and as the People's Republic of China was about to be established) the Chancellor of the Exchequer asked for an update on the situation in Hong Kong and was told that the free market had been effectively limited to $US (although it later traded in a wide range of currencies). Furthermore, Hong Kong's drawings on the central reserves in $US were small and their hard currency expenditure was below the colonial ceiling set by London.[33] Indeed the entrepot trade soon generated a surplus of hard currency for the central reserves. There was still the danger, however, that the free market would attract speculation and arbitrage, i.e. that sterling area residents would buy US$ in the Hong Kong free market at a premium or that non-sterling area residents would buy sterling at a discount on the official exchange rate.[34]

More generally, the government believed that the rates quoted on the free exchange market in Hong Kong undermined confidence in the official sterling fixed exchange rate. Hong Kong had the largest free market in Asia and other markets in China, Bangkok, Taiwan and elsewhere in East Asia followed the discounted Hong Kong cross rate, which seemed to confirm the impression that sterling was overvalued (sterling was subsequently devalued in September 1949). In Japan, SCAP came under considerable American criticism for signing a payments arrangement with the sterling area based on the overvalued official rate. Also, the rationale of keeping the free exchange market in order to allow the China trade to continue was no longer as convincing since the volume of this trade had been falling. The report noted, however, that there was considerable unrecorded trade with China that depended on the free market, and also there were substantial remittances from overseas Chinese through the market. Together, these allowed Hong Kong to pay for its $US imports without recourse to the central reserves in London. For this reason, and because it would be impossible to police the closure effectively, the option of closing the free market was again dismissed.[35]

On the prospect of excluding Hong Kong from the sterling area instead, by 1949 the political obstacles were deemed to have increased since 1945 because of the civil war in China. Any loosening of Hong Kong's links to Britain would be viewed abroad as a first step towards giving up the Colony. This would also have the perverse effect of increasing cheap sterling deals once the control of the authorised banks was lifted.[36] The Bank of England and Treasury agreed that with hindsight it would have been wiser to exclude Hong Kong from the sterling area directly after the war. The Bank of England advised that

> 'financially and technically it was probably wrong to include Hong Kong in the sterling area at the time of the re-occupation of the Colony, and the position which has developed there is such that Hong Kong should by rights be excluded from the area now, but the political considerations against this appear so strong that action on these lines does not appear a practical possibility at the present time.'

They suggested that the government should only allow British banks in Hong Kong to be 'authorised' in order to tighten up the existing controls. They also advocated the introduction of a dual account system. Sterling accounts at authorised banks would be 'No. 1' accounts and would be controlled by the local exchange controller. All sterling accounts at non-authorised banks would be designated 'No. 2' accounts and debits subject to control by the Bank of England unless they involved a transfer to a 'No. 1' account.[37]

These proposals were put to the Chancellor of the Exchequer in August 1949.[38] However, the devaluation of sterling a few weeks later and the advance of the Communists through China in the weeks that followed rather changed the complexion of the problem. Instead, the Governor of Hong Kong was instructed to close the free market immediately since the gap between the official and free market sterling rates was likely to be reduced now that sterling was no longer overvalued. Chinese remitters were expected to prefer Hong Kong's superior facilities and stability 'rather than fiddle around in the jungles of Macao, Bangkok or elsewhere for a slightly better rate'.[39] Grantham protested that the transit trade with the USA was still large ($HK44m per month), that the China trade was not dwindling, and that if the free market were suspended this amount of $US would have to come out of the central reserves in London.[40] The Bank of England agreed with Grantham.[41] In the end, the establishment of the PRC a few months later precluded closing the free market since it was such a politically sensitive time for Hong Kong. Again, politics intervened to preserve Hong Kong's unique position in the international monetary system.

The Chancellor of the Exchequer (Stafford Cripps), however, continued to have serious misgivings. At the beginning of 1950 he wrote that

> 'The free market in Hong Kong, a British Colony and part of the sterling area, is as you know a matter of deep concern to me particularly because the persistence since devaluation of cheap sterling transactions is one of the most serious of all our financial anxieties. In view of the harm which is undoubtedly being done to sterling by the free market in Hong Kong – both direct and by reason of the encouragement and excuse which the free market gives other Far Eastern free markets, I have felt great doubt whether HMG [His Majesty's Government] ought not to press for the immediate closure of this, the only free market within the sterling area.'

He only resisted because of the immediate political situation, but warned that this was a temporary reprieve that would be reconsidered in the future.[42] Instead Grantham was instructed to introduce the dual account system and to restrict the number of authorised banks.[43] Grantham managed to delay the introduction of these exchange controls for a further four months, for fear that they might be interpreted as a loss of political commitment by the UK to Hong Kong. He believed that new controls might generate a flight from sterling in Hong Kong and Asia, especially when the British were planning to withdraw a Ghurka brigade from Hong Kong to Malaya.[44] Eventually, however, Grantham had to accede to the British pressure at the beginning of June 1950.

The new restrictions in Hong Kong were accompanied by controls on China's use of sterling. At the end of 1949 it was decided that since Chinese sterling balances had been used illegally for cheap sterling transactions, all transfers from Chinese accounts in London should be subject to approval. Chinese sterling was apparently on offer in New York at a substantial discount and was being used, for example, by American importers of furs from South Africa. This prompted new controls requiring that spending sterling for legitimate imports from the sterling area and usual remittances would be allowed, but selling sterling cheaply to buy other currencies would be blocked. The goal was to maximise the usefulness of sterling for China's imports but to reduce the pool of cheap sterling on the global market.[45]

The position of Hong Kong in the sterling area continued to be reviewed periodically throughout the 1950s as part of general efforts to prop up the sterling exchange control system. The political obstacles remained persuasive, however. In May 1953, R.H. Turner of the Bank of England noted that 'the burden of any future defence of Hong Kong's position in the sterling area would, I think, have to rest on the political arguments'.[46] The continued presence of Hong Kong in the sterling area during the 1950s had profound implications for its relations with Britain, its relations with China, and its importance in the international monetary system that will be discussed in the following sections.

Hong Kong's unique position did prompt some rivalry elsewhere in East Asia. The relative freedom of markets in Hong Kong and also in Bangkok provoked particular resentment in Singapore. In 1949 P.J. Keogh of the Bank of England toured Southeast Asia and reported that

> In Singapore, we heard about the trade problems of a great entrepot centre endeavouring to maintain a strict exchange control and at the same time compete with neighbouring centres where irregular Sterling-Dollar cross rates prevailed.[47]

Seven years later, at the Malayan Constitutional Conference in London, the Malayan delegation challenged the British government to explain why Hong Kong was allowed to operate a free market while Singapore was not.[48] They were given the standard rationalisation that Hong Kong needed a free market to trade with China (where a broken cross rate operated) but this argument had lost its persuasiveness given the Chinese trade embargo, and the nationalisation of China's external commerce. More convincingly, the Malayans were reminded that Singapore's main US$-earning entrepot business was with Indonesia, who required the surrender of all $US at the official exchange rate.[49] Although Bangkok operated a free market, the Bank of England argued that since Thailand was only a small part of Singapore's entrepot trade this did not justify opening such a market in Singapore. More practically, the Hong Kong free market was a point of some controversy in the IMF and in British exchange control, but was tolerated mainly because it could not be eliminated and because of specific political circumstances. There was no enthusiasm in London deliberately to introduce such complications in another sterling area territory.[50]

<u>Sterling and Hong Kong's relations with China</u>

Sterling's role in Asian trade owed much to the different policies adopted by the USA and the UK to the PRC. One of the greatest challenges to Britain's policy in the Far East was the American embargo on trade with China begun in 1949. The Americans sought to gather Britain into their embargo, which would involve trade controls on British trade with Hong Kong.[51] Like the Americans, the British pursued a policy of exploiting economic relations to achieve political goals, but their assessment of the most likely way to achieve their ends was completely opposite to that of the Americans. In 1949 the Foreign Secretary asserted that

> 'at the moment we are concerned only with the survival of our business interests in China. If they do not survive, then we shall have lost the trading machinery with the aid of which we hope, in due course, to convince Mao Tse Teng and his boys that there is some advantage in playing with the West. We should also lose all our contacts with China, and the Communists would recede still further into the arms of Moscow.'[52]

For this reason the Foreign Office resisted US pressure on Britain to join their embargo on trade with China in 1949/50.

The use of business and economic relations as a tool of policy seemed to be at the forefront of the minds of the Foreign Office. Elsewhere, however, more practical objections held sway. The Treasury, Bank of England and the Governor of Hong Kong all agreed that a trade embargo could not be made completely effective since smuggling would occur either through Hong Kong or, if this were somehow closed off, through Macao and other Southeast Asian ports. In the words Graffety-Smith of the Bank of England, 'any economic blockade would be fairly useless in view of the long coastline, the neighbouring countries and the innate qualities of smuggler which are present in every Chinese'.[53]

China's trade was also disrupted briefly by the Nationalist Blockade of the port of Shanghai in 1949/50 that resulted in considerable congestion in the port of Hong Kong and required the extension of letters of credit, squeezing many merchants in Hong Kong and China.[54] In August 1949 the Hong Kong government temporarily refused to allow further shipments of bulky items such as cotton, wool or paper to be offloaded.[55] By January 1950 Hong Kong godown companies decided that they could no longer accept cargo destined for Shanghai.[56] The British Chamber of Commerce suggested that those who could get their letters of credit amended should ship their goods to a Northern port such as Tianjin via Hong Kong and try to arrange for the onward journey to Shanghai from there.[57] Banks in Hong Kong nursed their customers through the crisis and the congestion soon cleared as the blockade receded.

In May 1951, after the United Nations embargo on strategic trade with China drew the rest of the world along with American policy, the British Cabinet considered whether financial controls should be applied to back up the trade embargo. Both the Bank of England and the Treasury advised against increasing exchange control against China's use of sterling. First, it broke a principle that exchange control should not be used for non-financial purposes. Second, it could not stop smuggling anyway and would undermine the reputation of sterling. Hong Kong would always be a loophole in any embargo.[58] The Bank noted that the UN embargo did not include India, Burma or Ceylon, who would be using sterling for their trade with China. More exchange controls would merely shift this trade from sterling to some other currency, which contradicted the British policy of increasing the use of sterling as an international currency.[59] The Chancellor of the Exchequer eventually agreed that no further financial controls on China's use of sterling were advisable.[60]

The different political attitudes of the British and the Americans toward the PRC promoted the use of sterling in China's trade. A considerable amount of China's trade was denominated in sterling because of the danger of using the US$ given the American antipathy to the new regime. In September 1950 the Bank of China expressed their desire to increase trade with the sterling area. For example, ICI in China was known to have large orders for British exports, but they were hampered by the need to put up 100% margin on such imports so they asked the Hongkong Bank for short-term credit facilities.[61] The Bank of England refused to allow the Hongkong Bank to offer credit and instead preferred to take up China's offer to sell $US1 million in London to boost their sterling liquidity since this would be more beneficial for British foreign exchange reserves.[62] Chinese fears about using US$ were justified at the end of 1950 when the US Treasury issued a Freezing Order on all China-related US$ balances and accounts outstanding. This seriously disrupted China's trade with the rest of the world and was an important factor in pushing China toward an autarkic trading system and relying on barter. The embargo, the blockade, and the freezing order all meant that financial institutions in Hong Kong remained vital to China's trade and payments.

In the early 1950s the relationship between the Hongkong Bank and the Bank of China branch in Hong Kong was very cordial.[63] Indeed the Bank of China (HK)'s letters of guarantee for international trade were considered more reliable than those of the London branch.[64] They also had good relations with other Chinese banks. Hongkong Bank remarked in August 1951 that 'We have always found the Sin Hua Trust reliable and do not think they would telegraph for TT reimbursement stating that documents conformed to the credit unless such were the case. The National Industrial Bank [of China] are also reliable and conservative.'[65] This confidence allowed the recognition of letters of credit that kept the sterling area trade with China going despite the requirements for imports to arrive in China before payment was made (so exporters needed letters of credit to guarantee that the money could be paid), although the Hongkong Bank and the Chartered Bank operated on behalf of 'first class' and familiar clients only. In the first eight months of 1950 the London office of the Hongkong Bank opened 149 letters of credit with its branches in China (about 5% of the bank's global total), of which £963,178 were in sterling and US$211,576 were in US$.[66] Other foreign banks' letters of credit advised to Hongkong Bank in China totalled 322 of which £2.2m was in sterling and US$2.6m in US$.[67]

Sterling was also the currency used for the trade between Japan and China through Hong Kong. By June 1950 Hong Kong was selling considerable amounts of Kailan coal to Japan, totalling about £5-6 million and denominated in sterling.[68] At the end of 1952 the Shanghai branch of the Bank of China opened a sterling account with the Hongkong Bank head office in Hong Kong to make payments to Japan and the sterling area.[69] This was unusual since the Bank of China had its own branch in Hong Kong. The Shanghai manager of the Hongkong Bank remarked that the Bank of China (Shanghai) seemed very reluctant to deal with their own Hong Kong office.[70] The Bank of China (Shanghai) claimed to want to link with the Hongkong Bank because the latter handled most of Hong Kong's trade with Japan and had considerable experience as well as branches in Japan that would expedite the business.[71] The Bank of China (Hong Kong) did, however, finance Chinese exports to Europe in sterling and in December 1954 the Hongkong Bank was permitted by its head office to do the same.[72]

Of course the activities of foreign banks in China were restricted by the Communist nationalisation of commerce and political campaigns during the early 1950s. Several Hong Kong banks, however, continued to operate in China including the Bank of East Asia and the Chiyu Bank. The Shanghai office of the Hongkong Bank tried to close but was prevented by the Chinese government unless they would honour pre-war liabilities.[73] The Shanghai branch of the Hongkong Bank ceased business in March 1952 but the Chinese government refused to allow the bank to close completely. The Bank of China periodically promised to divert some foreign exchange business to the Hongkong Bank in the early 1950s but Head Office refused to let them do any business until their disagreement with the Bank of China over pre-war liabilities was resolved and the branch successfully closed. In 1953 the Bank of China urged the Shanghai branch of the Hongkong Bank to resume its trade finance, especially with Japan.[74] This was not completely out of the question since the Hongkong Bank wanted to replace their debt-ridden branch with an agency to finance trade with the sterling area.[75] Given the very restricted nature of China's trade that required payment in advance of export, importers of Chinese goods often preferred a well-known foreign bank to handle the documents and send telegraphic confirmation that they were in order.[76] Meanwhile the sterling trade of China was financed through Hong Kong, amounting to an estimate of about £2m per month, often for shipments from Europe.

In May/June 1955, after the transfer of outstanding liabilities to the Da Hua Bank, the Hongkong Bank resumed new trade business for first class clients like ICI and Shell.[77] The Chartered Bank was also operating in Shanghai again by this time, although in 1956 the local Hongkong Bank manager noted that

> ‘I drop into his office 2 or 3 times a week on a snooping visit but have never seen any of his staff doing anything more than routine work’

In September 1956 the Chartered Bank increased its business to letters of credit and Bills, mainly for blue chip companies like ICI and Verders Ltd (the latter was a large Chinese firm). This news led to similar instructions for the Hongkong Bank.[78] The Shanghai office of the Chartered Bank recovered gradually to show a slight profit of RMB90,000 by 1958.[79] The Hongkong Bank’s business also began to grow. The increase in outward bills business required the Shanghai office of the Hongkong Bank to increase its sterling overdraft in London from £100,000 in 1958 to £400,000 in March 1966.[80]

As in the 1930s, the interests of British Exchange Banks and the British Government did not always coincide. At the beginning of 1950 the Hongkong Bank and the Chartered Bank together lobbied the Bank of England to allow them to offer a slightly higher interest rate than the usual ½% on fixed sterling deposits in London in order to encourage the new PRC to transfer their sterling balances in London from Banque Belge pour L’Etranger, the Banque d l’Indochine and the National Provincial Bank to the Chartered Bank and the Hongkong Bank. The Hongkong Bank tried to sell the advantages that this would offer by pointing out the ‘many advantages which might accrue to them as well as ourselves, both from the control and policy angle.’ However, the Bank of England refused to make an exception to its gentleman’s agreement limiting interest on fixed deposits in London.[81] In this case the cosy relationship between the Bank of England and the British Exchange Banks did not produce a result for the latter. The exchange banks were not to be used directly as an instrument of policy.

Hong Kong remained a strategically important market for China throughout the 1950s despite the PRC’s nationalisation of trade, move to autarky and leaning towards the Soviet Union. In the run-up to the UN embargo on trade with China in May 1951, Hong Kong’s re-exports to China soared, generating a substantial trade surplus. This was quickly reversed, however, as recorded exports to China plummeted due to the embargo. However, Hong Kong continued to import substantial amounts of food from China, generating a large and growing deficit in its balance of trade with China. The deficit grew from about HK$300m p.a. in 1952-54 to about HK$1000m p.a. for the years 1956-60. Because of Hong Kong’s position in the sterling area and the location of the free market, this surplus of foreign exchange was particularly valuable for China since it was readily convertible into sterling or any other currency. Given the controls on China's use of US$, sterling became an especially important currency for settlement of China's international trade. The role of the Hongkong Bank in these transactions is apparent in Table 1 which shows the growing purchases of sterling by the Bank of China as their trade surpluses with Hong Kong increased. The Hongkong Bank's purchases of sterling in New York to meet the demand from the Bank of China were enough to support the exchange rate of security sterling in New York at the official rate in the 1960s.[82]

Table 1 Sterling Transactions of the Hongkong Bank (£m)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	196
Switch Sterling Purchases	24.5	25.8	25.5	36.0	35.5	31.5	40.4	37.8	47.9	45.4	76.9	92
Purchase of £ from Bank of Indonesia		6.8	23.1	12.3	8.7	4.7	12.7	7.8	0.0	2.1	3.2	2
Transfers of £ from Singapore/Malaysia		18.1	19.2	22.0	20.3	20.0	13.2	17.2	14.4	22.4	36.7	33
Sales of £ to Bank of China		34.9	36.5	47.0	46.6	30.1	42.5	32.0	42.0	59.5	115.3	132

Source: Returns of Hong Kong Office. GHO201, HSBC.

<u>Hong Kong and Regional Trade and Payments</u>

Since the rationale for Hong Kong's economic existence was as an entrepot in East Asia there was no exchange control imposed on transactions with its traditional trading partners; Macao, China, Taiwan and South Korea. A variety of other controls, however, tried not very effectively to restrict the transferability of sterling by countries such as Thailand, Indonesia and Indo-china that were subject to exchange control from Britain.

Thailand was a major source of US$ to the free market in Hong Kong. This was mainly due to the export of gold from Hong Kong to Bangkok in the years leading up to the establishment of a legal gold market in Bangkok in 1952.[83] About half of the dollar supply in Hong Kong was believed to come from Thailand at this time.[84] Bangkok operated its own free exchange market and traded in certain grades of rice in US$, but the exchange rate of the US$ consistently traded at a lower premium than the Hong Kong market, making it more profitable to sell US$ in Hong Kong. In 1950 the IMF wanted Thailand to close its free market but it protested that the existence of the Hong Kong market made it impossible to peg the bhat at the official cross rate.[85] The Hong Kong market was also a competitive target for other holders of US$ in Asia. In the second half of 1952, for example, the Tokyo rate for US$ was about 5% below the Hong Kong rate because of the disposal of surplus US$ by Japanese. As a result, arbitrageurs operated between the Hong Kong and Tokyo market, generally increasing the supply of US$ notes in Hong Kong.[86]

Hong Kong's regional role included being a vital early link for the recovery of Japan's international trade. From March 1948, Hong Kong operated a 2-way account system with Japan aimed at balanced bilateral trade. Hong Kong was not, therefore, part of the overall sterling area payments agreement with SCAP. Outstanding balances between Hong Kong and Japan were converted to $US on a six-monthly basis. The general pattern of the trade was that Hong Kong re-exported Chinese goods to Japan in exchange for non-essential Japanese products. This arrangement was particularly valuable for Japan in the late 1940s and early 1950s when Japan was very short of foreign exchange. Most of Japan's trading partners would only import essential goods, but this was not the case for Hong Kong. As a result, Hong Kong provided Japan with an opportunity to import essential raw materials in return for 'exports of gastronomical delicacies and bazaar goods which no other country will take; and it pays her to buy at higher prices through Hong Kong commodities which she could get cheaper from the country which produces them'.[87]

The two-way account was renegotiated annually and the UK tried to insist that the account should be denominated and settled in sterling or HK$ rather than US$. By 1950 Japan had substantial sterling balances that Britain was keen to have spent on sterling area goods. The British representative at the negotiations at the beginning of 1950 noted, however, that 'in SCAP, as in many American organisations, there naturally exists quite a strong anglophobe element; this element sees every attempt to expand the use of sterling as an attack on the Almighty Dollar'.[88] Soon, however, Hong Kong became an irritant to the Japanese since the free market allowed Hong Kong to re-export Japanese goods to the USA at cheaper prices than Japan could directly.[89] In September 1953, for example, Hong Kong's re-exports of Japanese goods to Thailand and Indonesia was running at a rate of £250,000 and £900,000 per month respectively.[90]

Other Asian sterling area countries also had access to the market in Hong Kong. In April 1950 the Secretary of State wrote to the Colonies in Southeast Asia asking them to restrict imports of hard currency goods from Hong Kong merchants who used the free market to get their foreign exchange.[91] This was to stop overseas sterling area demand from increasing the demand for US$ on the free market and so depressing the HK$ rate and therefore the sterling cross rate. All the colonies initially agreed, except for Singapore. The Bank of England advised that since 'a fair case could be made for applying to Singapore nearly all the various concessions made to Hong Kong' enforcing the new restrictions on Singapore might be impossible. In the end Malaya/Singapore was allowed to buy American and Canadian goods through Hong Kong as long as the level did not exceed that of 1950, which amounted to about £8m per year in 1952 and 1953.

Hong Kong and Asian Capital Flows

As well as acting as a trade entrepot, the unique role of Hong Kong in the international monetary system made it a target for regional capital flows. A major advantage Hong Kong had over its neighbours was relative political stability. Although the future of Hong Kong was uncertain in the long term, the immediate commitment of the UK and the USA to the continued Western control of Hong Kong was assured after the spread of the cold war to East Asia. The threat that China would invade Hong Kong in this period was not a serious one, and the prospect that Hong Kong would return to China in 30-40 years was well outweighed by the benefits the colony offered in the present. This was reinforced by the economic and political turmoil that plagued most other territories in East Asia during this period. Tokyo was a notable exception to political instability in the region, but its banking system was tightly regulated.

In the late 1940s, most flight capital came from China, and in particular from wealthy Shanghai business families. Increasing taxation, unprofitable manufacturing, political and legal uncertainty, and police harassment all contributed to the flow. The escape of capital from the Nationalist regime generated considerable political as well as economic friction between the KMT, the Hong Kong government and the British government in London.[92]

Hong Kong was also the traditional conduit for remittances from overseas Chinese to China. Table 2 shows estimates of the value of this traffic on the basis that half of the remittances went through the Bank of China. The rate of overseas remittances increased during the Korean War period but then gradually declined through the rest of the decade.

Table 2 Remittances to China through Hong Kong (US$m)

	Remittances through Hong Kong			Total Remittances
	Bank of China	Other Banks	Total	
1950	44.38	44.38	88.76	91.1
1951	48.37	48.37	96.74	101.7
1952	49.45	49.45	98.9	103.3
1953	35.93	35.93	71.86	77.3
1954	33.3	33.3	66.6	69.7
1955	30.7	30.7	61.4	70.8
1956	25.43	25.43	50.86	63.2
1957	18.05	18.05	36.1	49.7
1958	17.26	17.26	34.52	42.7
1959	12.06	12.06	24.12	33.7
1960	15.82	15.82	31.64	42.6

Source: F-H Mah, The Foreign Trade of Mainland China, University of Edinburgh Press, Edinburgh, 1972, pp. 238-245.

In the 1950s decolonisation in Southeast Asia, the Korean War, Indonesia's 'confrontation' and the Communist take-over of North Vietnam further destabilised the region. Chinese businesses and bankers, who dominated the financial sector in many Southeast Asian economies, found themselves increasingly under threat from nationalist regimes seeking to restore economic power to indigenous populations. In many Asian countries indigenous interests were promoted over international interests (sometimes through nationalisation). Also, there were curbs on the activities of the immigrant Chinese populations.[93] Usually these policies were enforced by the establishment of a strongly interventionist central bank, and generally on the principle that international finance was incompatible with domestic economic development. Corruption was another factor that raised transactions costs in many countries, especially in the Philippines and Thailand. These threats encouraged wealthy Chinese to collect assets in the relatively secure haven of Hong Kong where the economic dominance of the Chinese population was never threatened and there was free convertibility should the money need to be repatriated.[94]

The estimates shown in Table 3 suggest that the capital inflow from Overseas Chinese amounted to about HK$6.3 billion between 1950-1965, or about US$1 billion. There is little doubt that this had important implications both for Hong Kong's financial system and its economic development in this decade.

Table 3 Flow of Chinese-Owned Funds into Hong Kong (HK$m)

	Total	Annual Average
1949	300-400	300-400
1950-1952	600	200
1953-1955	1000	333
1955	600	600
1956-1958	1600	533
1959	300*	720
1964	1000	1000
1965	1000	1000

* June to October 1959 only.

Source: 1949-64, Report by JETRO (1964) cited in Y.L. Wu and C.H. Wu, Economic Development in Southeast Asia; the Chinese dimension, Stanford, Hoover Institution Press, 1980, p. 95. 1964/5 from Wu and Wu, Economic Development in Southeast Asia, p. 95.

Conclusions

The one main element of continuity between 1930 and the 1940s and 1950s is that the monetary system of Hong Kong continued to be heavily influenced by that of China and vice versa. Unlike the usual account of the PRCs economic policy, this paper has argued that in the 1950s the inconvertibility of the RMB and the economic sanctions imposed on China did not eliminate its close financial relationship with Hong Kong. The banks of Hong Kong continued to play a role in the financing of China's trade, although the characterisation of them as instruments of British imperialism is hard to sustain for the post-war period. Britain's acceptance of Hong Kong's free foreign exchange market as an economic necessity, and the political requirement to keep the colony also within the sterling area, provided Hong Kong with an enhanced importance in the post-war period as a 'gap' in the Bretton Woods system of exchange control. This unique position was due to the combination of the legacy of the interwar Asian regional economic system, the cold war in Asia that caused the USA to withdraw its direct economic contact with China, and the new international monetary system based on fixed exchange rates and inconvertible currencies. As a result, Hong Kong provided unrivalled opportunities for China and other regional Asian economies.

I have argued elsewhere that in the late 1940s flight capital, currency substitution and smuggling between Hong Kong and China had important implications for the political as well as economic relations of China, Hong Kong, and Britain.[95] In the 1950s, the trade surplus earned by the PRC from Hong Kong provided much needed and (crucially) convertible foreign exchange. Hong Kong also provided opportunities for other East and Southeast Asian countries to acquire dollar goods without spending dollars as well as providing a safe haven for Chinese capital during the decades of uncertainty in the 1950s and 1960s. This formed the basis for Hong Kong's rise to prominence as an international financial centre in the decades that followed and the renewal of Hong Kong's role as financial and trade entrepot for China in the 1980s.

[1] IM Drummond, The Floating Pound and the Sterling Area; 1931-39, Cambridge University Press, 1981.
[2] Report on Sterling Policy, CAB 58/169. Reprinted in S. Howson and D. Winch, The Economic Advisory Council 1930-39, Cambridge University Press, 1977, pp. 254-63.
[3] The Kemmerer Report on China in 1930 advocated a move to a gold standard and this prompted the introduction of the Customs Gold Unit but the currency issue remained 100% backed by silver.
[4] BPP (1930/31) Cmd. 3932. For a full discussion of the rationale for pegging to silver and not to sterling or gold see C.F. Joseph Tom, Monetary Problems of an Entrepot; the Hong Kong experience, Peter Lang, New York, 1989.
[5] In the end the Japanese invasion meant that the £20m loan did not materialise. 'British Financial Diplomacy in China' the Leith-Ross Mission, 1935-37', Pacific Affairs, 46(4), 1974, pp.
[6] SH Chou, The Chinese Inflation 1937-1949, New York, Columbia University Press, 1963. pp. 116-17.
[7] The Hongkong and Shanghai Bank, the Mercantile Bank and the Chartered Bank.
[8] FHH King, Money in British East Asia, London, HMSO, 1957, pp. 108. This distinguished Hong Kong from other colonial currency boards.
[9] Chou, p. 122. King details the continued operations of the Stabilisation Board and its successor, FHH King, The Hongkong Bank between the Wars and the Bank Interned, 1919-1949; return from grandeur, Volume III of the History of the Hongkong and Shanghai Banking Corporation, CUP, 1988, pp. 424-443.
[10] The Hong Kong dollar circulated widely throughout South China from 1941-50 as the de facto transactions currency. C.R. Schenk, 'Another Asian Financial Crisis: monetary links between Hong Kong and China 1945-50', Modern Asian Studies, 34(3), 2000, pp. 739-764.
[11] PJ Cain and AG Hopkins, British Imperialism; crisis and deconstruction 1914-1990, London, Longman, 1993, Ch. 10 on China.
[12] Cain and Hopkins, p. 140.
[13] Rogers soon fell out of favour with the Chinese finance minister, H.H. Kung, who later blocked his appointment to the Stabilisation Board in 1941.
[14] King, 1988, pp. 401-2. Grayburn of the Bank replied angrily, setting out the many loans that the Hongkong Bank had made toward China's development.
[15] King, 1988, p. 425.
[16] E. Green and S. Kinsey, The Paradise Bank; the Mercantile Bank of India, 1893-1984, Aldershot, Ashgate, 1999, pp. 83-85.
[17] King 1988, p. 407.
[18] King, 1988, pp. 411-12.
[19] King, pp. 435-36.
[20] King, p. 439.
[21] Chou, p. 125.
[22] Chou, p. 126.
[23] Telegram by HMT to Tamsui, 10 August 1949. It was believed that Formosa/Taiwan preferred US$ to £ at this time and this was to be discouraged. BE OV104/45.
[24] Schenk, Britain and the Sterling Area: From Devaluation to Convertibility, Routledge, 1994.
[25] Schenk, 'Closing the Hong Kong Gap: Hong Kong and the free dollar market in the 1950s', Economic History Review, XLVII(2), 1994, 335-53.
[26] Schenk, 'Another Asian Financial Crisis: monetary links between Hong Kong and China 1945-50', Modern Asian Studies, 34(3), 2000, pp. 739-764.
27Memorandum by J.S. Beale, 11 November 1947. BE OV104/87.
[28] Bank of England Report, 3 May 1948. BE OV14/3.
[29] Portsmore to Beale, 4 June 1948. BE OV14/3.
[30] H Wilson Smith to Governor Cobbold (BE), 12 May 1948. BE OV14/3.
[31] The HSBC and the Chartered were initially worried that they would be the only banks to enforce the new regulations but were reassured by the Bank of England that transgressors would be struck off from the list of authorised banks. Note by Portsmore of a meeting with Cockburn of Chartered and Morse of HSBC, 23 July 1948. When the Bank of China was accused of dealing directly in the free market by the Far Eastern Economic Review in November, the Financial Secretary in Hong Kong demanded that they get a retraction printed or face being struck off the list of authorised banks. The Review

retracted its allegation. Telegram from Hong Kong to London, 11 November 1948 and 11 November 1948. Portsmore reported, however, that they had independent information that the allegation was well founded. Portsmore note 28 March 1949. BE OV14/3. For a discussion of the structure of the Hong Kong banking system in this period see, Schenk, 'Banking Groups in Hong Kong 1945-65', Asia Pacific Business Review, 7 (2), 2000, pp. 131-154.

[32] Portsmore Report of his trip to Hong Kong, 27 June 1949. BE OV14/4.

[33] Report to the Chancellor of the Exchequer on the Currency and Exchange position in Hong Kong, 27 August 1949. BE OV14/4.

[34] The amount of traffic was difficult to determine, but the Bank of England noted one transaction of £15,000 in legal fees due in London by a resident of Canada and paid for in cheap sterling bought in Hong Kong.

[35] Schenk, 'Closing the Hong Kong Gap: Hong Kong and the free dollar market in the 1950s', Economic History Review, XLVII(2), 1994, 335-53.

[36] Report to the Chancellor of the Exchequer on the Currency and Exchange position in Hong Kong, 27 August 1949. BE OV14/4.

[37] Fisher on behalf of the Bank of England to Treasury, 9 July 1949. BE OV14/4.

[38] Report to the Chancellor of the Exchequer on the Currency and Exchange position in Hong Kong, 27 August 1949. BE OV14/4

[39] Telegram from Secretary of State for the Colonies to Sir A Grantham, Hong Kong, 16 September 1949. BE OV14/4.

[40] Telegram from Grantham to Secretary of State for Colonies, 9 October 1949. BE OV14/4.

[41] Letters from Portsmore to Treasury 31 October 1949. BE OV14/4.

[42] Letter sent by Chancellor of Exchequer to Secretary of State for the Colonies, 14 January 1950. BE OV14/5

[43] Telegram from Secretary of State for the Colonies to Grantham, 6 February 1950. BE OV14/5.

[44] Telegrams from Grantham 12 February 1950 and 28 February 1950. BE OV14/5. The Treasury believed Grantham was merely procrastinating. NE Young to H Brittain, 10 March 1950. Grantham was told to set the date for the new controls on 29 March 1950, PRO T236/5112.

[45] Treasury note 11 January 1950. PRO FO371/92273. As of February 1949 Chinese sterling balances in London amounted to £13m. B Granger-Taylor to PD Coates (FO), 7 February 1949. PRO T236/1813.

[46] RH Turner to PL Hogg, 1 May 1953. BE OV14/9.

[47] Report by P.J. Keogh on his visit to Australia and the Far East November 1948-February 1949. BE OV66/1.

[48] Letter from Emmanuel (Colonial Office) to Simons (Treasury) 23 January 1956. BE OV65/4.

[49] Bank of England explanation 25 January 1956, given to the Finance Committee of the Malayan Constitutional Conference on 26 January 1956. BE OV65/4.

[50] For a fuller explanation of the different approaches to Singapore and Hong Kong, see Schenk, Hong Kong as an International Financial Centre: emergence and development 1945-65, Routledge, 2001, pp. 137-41.

[51] For a fuller analysis of the British attitude to the embargo see Schenk, Hong Kong as an International Financial Centre: emergence and development 1945-65, Routledge, 2001, pp. 35-42.

[52] Memo by Dening (FO) 11 August 1949. Agreed by Secretary of State 12 August 1949. PRO FO371/75857.

[53] Note from Graffety-Smith to Heasman, 8 December 1950. BE OV104/89.

[54] For a fuller account of the blocade see, Schenk, Hong Kong as an International Financial Centre: emergence and development 1945-65, Routledge, 2001, Chapter 2.

[55] Message to British Chamber of Commerce from HK Collar (HK) via ICI to Shanghai. 5 August 1949. HSBC Group Archives [hereafter HSBC] SHG711.

[56] Telegram from Far Eastern Freight Conference (Ldn) sent by British Chamber of Commerce to all members 21 February 1950. HSBC SHG711.

[57] British Chamber of Commerce circular 1 March 1950. HSBC SHG 711.

[58] AJ Phelps (HMT) to Serpell (HMT), 22 May 1951. BE OV104/89.

[59] HA Siepmann to H Brittain (HMT), 23 May 1951. BE OV104/89.

[60] Memo by Heasman, 15 June 1951. BE OV104/89.

[61] WT Yoxall (SH) to Gray (LDN), 1 September 1950. HSBC SHG760.5.

[62] Gray to Yoxall, 12 September 1950. HSBC SHG760.5.

[63] Turner (LDN) to Yoxall (SH), 8 March 1951. Turner also notes that HSBC freely converted sterling to HK$ for the Bank of China in Hong Kong. HSBC SHG741.8.
[64] Letter from RP Moodie (HK) to Mourtrie (Hamburg), 7 December 1954. HSBC, GHO170.
[65] Yoxall (SH) to Wallace (Ldn), 10 August 1951. HSBC SHG760.5.
[66] The official exchange rate was $US2.80 per £1.
[67] SA Gray (LDN) to A Morse (HK), September/October 1950. HSBC SHG 760.5,
[68] B Granger-Taylor (HMT) to D Kelvin Stark (CO), 21 June 1950. PRO FO371/83359.
[69] Yoxall (SH) to Moodie (HK), 27 December 1952. HSBC SHG741.9.
[70] Yoxall to Moodie 10 September 1952. HSBC SHG 741.9.
[71] Yoxall (SH) to Moodie (HK), 13 August 1952. HSBC SHG741.9.
[72] Letter from RP Moodie (HK) to Mourtrie (Hamburg), 7 December 1954. HSBC, GHO170.
[73] See correspondence in HSBC SHG651.2.
[74] Correspondence between Yoxall (SH) and Turner (HK) in July 1953. HSBC SHG651.2.
[75] Turner to Yoxall, 17 February 1954. HSBC SHG651.2.
[76] Yoxall to Turner, 18 May 1954. HSBC SHG651.2.
[77] Yoxall to Stacey, 10 May 1955. HSBC SHG651.3.
[78] AM Mack (HK) to RGL Oliphant, 10 September 1956. HSBC GHO154.
[79] GOW Stewart to SWP Perry-Aldworth (Ldn), 23 May 1958. The HSBC was rather left behind at this time. HSBC GHO170.
[80] HSBC GHO 170.
[81] Grey to GS Dunkley (Tianjin), 18 January 1950. HSBC SHG760.5.
[82] Schenk, Hong Kong as an International Financial Centre: emergence and development 1945-65, Routledge, 2001, pp. 85-88.
[83] Schenk, 'The Hong Kong Gold Market and the Southeast Asian Gold Trade in the 1950s', Modern Asian Studies, 29, 2, 1995, pp. 387-402.
[84] Brief for UK representatives for IMF consultations, 29 November 1952. PRO T231/705.
[85] Telegram from Washington to Foreign Office, 10 March 1950. BE OV25/11.
[86] Far Eastern Economic Review, 16 October 1952, p. 511.
[87] 'Report of Negotiations in Tokyo' by KMA Barnett, 11 February 1950. BE OV14/5.
[88] 'Report of Negotiations in Tokyo' by KMA Barnett, 11 February 1950. BE OV14/5.
[89] M.T. Flett to Brittain, 27 October 1952. PRO T236/5113.
[90] Telegram from Chandler (Exchange Controller in Hong Kong), 12 September 1953. BE OV14/9.
[91] Telegram from Secretary of State to Singapore, Malaya, North Borneo, Sarawak, Hong Kong, 8 April 1950. BE OV14/6.
[92] Schenk, 'Commercial Rivalry between Shanghai and Hong Kong during the Collapse of the Nationalist Regime in China, 1945-49', International History Review, XX(1) March 1998, pp. 68-88.
[93] For a survey of the restrictions on ethnic Chinese economic activities in Indonesia, Malaysia, the Philippines and Thailand, see Y.L. Wu and C.H. Wu, Economic Development in Southeast Asia; the Chinese dimension, Stanford, Hoover Institution Press, 1980, pp. 173-179.
[94] J.J. Cowperthwaite (Financial Secretary) apparently refused to join the Hong Kong Club because it did not admit Asians. Personal Report, J Tomkins, 9 May 1962, BE OV14/22.
[95] Schenk, 'Commercial Rivalry between Shanghai and Hong Kong during the Collapse of the Nationalist Regime in China, 1945-49', International History Review, XX(1) March 1998, pp. 68-88.