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**The Presidents of the Bank of Taiwan and
Their Times: Background, Management
and Business Development: 1899–1925**

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March 2017

Abstract

This paper is the brief history of the Bank of Taiwan (BOT, 台灣銀行) from 1899 to 1925, especially focusing on the first to the fourth presidents who represent the era of the rise and fall of the BOT. The BOT was established by the Japanese government in 1899 as colonial development bank in Taiwan, however they changed the business model to that of an international bank covering mainland China and Southeast Asia in 1910s. This rapid expansionism failed in the early 1920s and the BOT temporarily closed its doors in 1927. The question is how and when these problems occurred and spread in the organization as a result of mismanagement. Through the analysis of their achievements and personal background along with corporate performance and macro history, we are better able to understand the rise and fall of the BOT.

Keywords: Bank of Taiwan; Imperialism; Southward movement; Financial history; Economic history.

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Background, Management and Business Development: 1899–1925

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Abstract: This paper is the brief history of the Bank of Taiwan (BOT, 台灣銀行) from 1899 to 1925, especially focusing on the first to the fourth presidents who represent the era of the rise and fall of the BOT. The BOT was established by the Japanese government in 1899 as colonial development bank in Taiwan, however they changed the business model to that of an international bank covering mainland China and Southeast Asia in 1910s. This rapid expansionism failed in the early 1920s and the BOT temporarily closed its doors in 1927. The question is how and when these problems occurred and spread in the organization as a result of mismanagement. Through the analysis of their achievements and personal background along with corporate performance and macro history, we are better able to understand the rise and fall of the BOT.

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1. Introduction

This paper elucidates the brief history of the Bank of Taiwan (BOT) from 1899 to 1925, especially focusing on the first to the fourth presidents who represent the era of the rise and fall of the BOT.¹

The BOT was established by the Japanese government in 1899. As central bank and development bank in Taiwan, they provided not only general banking services but also note issue, development finance, bond underwriting and so on. On the other hand, the BOT described an ambitious business development plan in the Memorandum and Articles of Association in 1899 which said that they would expand their market territory to mainland China and Southeast Asia to become a financial pillar of Japanese economic expansionism in Asia. This plan was realized and flourished in 1910s, however rapid expansionism failed in the early 1920s under the serious depression after the First World War, and the BOT temporarily closed its door in 1927.

Generally speaking, the reason for the collapse of the BOT was excessive lending to Suzuki Shoten (鈴木商店), a new and rising conglomerate in Kobe, Japan. However, this excessive lending is a reflection of moral hazard and lack of corporate governance in the long term. The question is how and when these problems occurred and spread in the

¹ For an overview, see BOT ed. 1910, 1916, 1919, 1939; EOBT ed. 1964. For a detailed discussion, see Namikata 1985; Ashihara 1986; Ito 1989; Sunaga 2005; Yokoi 2005; Hisasue 2010, 2012, 2015.

organization as a result of mismanagement.

Therefore, this paper focuses on the era of 1899 to 1925, during which the first to fourth presidents governed the BOT. Through the analysis of their achievements and personal background along with corporate performance and macro history, we are better able to understand the rise and fall of the BOT.

2. Jyuichi Soeda, the first president: 1899-1901

(1) Establishment of the BOT

As a result of Japanese-Sino war, the Qing dynasty ceded the Formosa islands to Japan in 1895. Japan started to develop Taiwan in line with its own experience of modernization. Financial system reform was one important policy and the Japanese government in Tokyo planned to establish a colonial development bank with central banking functions. In March 1897, the Bank of Taiwan Act was passed in the Imperial Diet, and the committee to establish the BOT was organized in November.

In March 1898, Jyuichi Soeda (添田壽一), director-general of the supervisory bureau at the Ministry of Finance (MOF), became chairman of the committee. He enthusiastically led the formation of the new banking institution in collaboration with General Gentaro Kodama (児玉源太郎), Taiwan's governor, and Shinpei Goto (後藤新平), chief of home affairs of the Taiwan Governor's Office (TGO). In March 1899, the Japanese government underwrote 20% of the BOT shares for 1 million yen, and the committee certified the Memorandum and Articles of Association. In June 1899, the MOF licensed the business operation to the BOT and Soeda was appointed as president. The BOT officially opened its doors on July 5, 1899, in Tokyo; the Taipei headquarters opened on September 26, 1899.

The first president was appointed under the rule of the Bank of Taiwan Act (Chapter 13) and the Memorandum and Article of Association (Chapter 22), which stated that "the candidate for president and vice president must be a shareholder who owns more than 100 shares and must be appointed by the Japanese government."² It clearly suggests that the power of appointment and supervision of the BOT lies with the MOF in Tokyo and not with the TGO.

(2) Background of Soeda

Soeda was born in Fukuoka prefecture in 1864 and graduated from the Faculty of Law, the Imperial University in 1884. He joined MOF and studied abroad at the University of Cambridge and the University of Heidelberg for more than three years. After he returned from Europe, he worked for the tax bureau and the banking bureau. He was promoted to deputy director-general in 1890 and to director-general of the supervisory bureau in 1897. He was a scholarly person and studied monetary and fiscal

² BOT 1910, 14, 27

policy, trade and foreign exchange, applied economics, and commercial history. He also drafted the Bank of Taiwan Act and the Industrial Bank Act. He was promoted to the vice-minister in 1898 but had to step down from his position a few months later because of the general resignation of the cabinet. Thereafter, he was appointed as president of the BOT.

Soeda arrived in Taipei in August 1899. He selected executive directors who were able, young (in their thirties), and experienced in bureaucratic and banking fields. They included: Kazuyoshi Yagyū (柳生一義, vice president, former postmaster of Yokohama General Post Office, Ministry of Communication), Hiroshi Toki (土岐儻, senior director for business operations, former Korea branch general manager, First National Bank), Hiromi Kawasaki (川崎寛美, director for note issue and government treasury, former treasury bureau chief, the Bank of Japan [BOJ]), Muneyoshi Tatsuno (辰野宗義, director for the treasurer, former section chief, MOF), Fujitaro Shimosaka (下坂藤太郎, director, former section chief of the banks division, MOF).

Under Soeda's leadership, the BOT expanded its branch and agency networks in Taiwan to Taichu (台中), Houzan (鳳山), Kagi (嘉義), Shinchiku (新竹), Kobi (滬尾, a.k.a. Tansui 淡水), Houko Island (澎湖島), Giran (宜蘭), Tainan (台南), Kiryu (基隆) and Takao (打狗, a.k.a.高雄). They also opened a Kobe branch in Japan in October 1899 and an Amoy branch in the Fujian province of mainland China in May 1900. Regarding business operations, the BOT started issuing notes: 1-yen silver notes in September 1899, 5-yen silver notes in December 1899, and 10-yen silver notes in February 1901. In October 1899, the BOT took over BOJ's national treasury operation in Taiwan and concluded correspondence contracts with the Shanghai and Hong Kong agencies of Yokohama Specie Bank (YSB) to start foreign exchange and money transfer services. The BOT underwrote a nominal 9,000 yen of Taiwan public investment bonds issued by the Japanese government in June 1900 and started physical gold trading in the Takao agency in November of that year.

The balance sheet figures and results were solid and the bank experienced stable development from 1899 to 1901. The total deposit accounts balance was 965,411 yen in 1899; 4,974,275 yen in 1900; and 4,539,772 yen in 1901. The total lending accounts balance was 3,374,633 yen in 1899; 7,672,290 yen in 1900; and 6,988,439 yen in 1901. Bank profits were 3,549 yen in 1899; 89,793 yen in 1900; and 82,645 yen in 1901. There was no dividend in 1899, but the dividend rate was 6% in the first half of 1900, 7% in the second half of 1900, 8% in the first half of 1901, and 9% in the second half of 1901. Those financial numbers show that the BOT was being soundly managed.

(3) Resignation of Soeda

Despite the robust expansion of the BOT, Soeda started to consider resigning from the post. The reason behind this consideration was the establishment of the Industrial Bank of Japan (IBJ), which was based on the Industrial Bank Act drafted by him. The

Act failed to pass during the session of the Imperial Diet in 1899 but subsequently passed in 1900 and was promulgated in March 1901. Dr. Soeda became a chairman of the committee for establishing the IBJ and acted as de facto president. Therefore, he needed to select his successor at the BOT and recommended Vice President Kazuyoshi Yagyu. In Soeda's opinion, Yagyu had considerable insight and a good character. However, some non-executive directors and board advisors opposed making Yagyu president because he was 36 years old at the time and did not have an in-depth career in the banking industry. For example, Kihachiro Okura (大倉喜八郎), non-executive director of the BOT and the owner of Okura Zaibatsu (大倉財閥) described his personal impressions of Yagyu in his memoir as follows:

Mr. Yagyu at the time was just few years after his graduation from university. He was young and had less practical experience in business. I was personally devoted to the establishment of the BOT and sincerely wished its smooth business development, so I was concerned about him becoming a successor of Soeda.³

Therefore, Soeda arranged a political maneuver with then Governor Kodama in Taiwan and the MOF in Tokyo supported Soeda's succession plan. Finally, Soeda resigned his position in November 1901 and become the first President of IBJ in March 1902.

3. Kazuyoshi Yagyu, the second president: 1901-1916

(1) Background of Yagyu

Kazuyoshi Yagyu was born in Edo (a.k.a. Tokyo) in 1865. The family was famous for swordsmanship and his father joined the Japanese military as an officer after the Meiji restoration. Yagyu graduated from the Faculty of Law at the Imperial University in 1891 and joined the MOF as an assistant officer. He later took a job in the Army Ministry as a civil servant and was promoted to deputy director-general in 1893. In 1895, he was transferred to the military engineer division for infrastructure building in Taiwan. The head of this division was General Kodama who became the governor of Taiwan three years later and Yagyu enjoyed his favor. In 1897, he was assigned to the Ministry of Agriculture and Commerce as deputy director-general then transferred to the position of postmaster of Yokohama General Post Office in the Ministry of Communication. Obviously, he was an elite bureaucrat, however his career path was not as stable as was typical at the time. This was because of his impulsive character. He was strategic, prompt in action, and not afraid of conflict.

In 1899, Yagyu was appointed a member of the committee for establishing the BOT.

³ Shimuzu & Ono ed. 1922, 270

This came about because of his personal relationship with Soeda. Soeda was his schoolmate in Osaka English Language School and Yagyu married Soeda's adopted daughter in 1899. Soeda knew Yagyu's personal character and he chose Yagyu as his right-hand man when he was in charge of establishing the BOT. Soeda described this in his memoir as follows:

I told him the importance of the BOT's mission and asked to him to work together. He is a man of duty and humanity, and accepted my offer immediately with his spirit to share our life and death.⁴

Yagyu was appointed vice president of the BOT in April 1899, but he was not involved in business operations because of his lack of banking experience. However, once he succeeded to the position of president, he showed virile leadership as a top manager. Fujitaro Shimosaka, who supported Yagyu as vice president, described as follows:

We deeply trusted Mr. Yagyu to plan for the future development or decision-making of daily management.⁵

Yagyu was famous as workaholic and nicknamed "low pressure." His ambition vitalized the entire organization. Vice president Kojyuro Nakagawa (中川小十郎) described him as follows:

From morning to night, even on Sundays or holidays, he was always thinking about his duty. Once he received important telegraphs from the branches, he called the board of directors and discussed the matter even on nights or weekends, then replied with his instruction to the branch manager the next morning. His working style was too extreme and caused pressure for subordinates but nobody could complain about it. Finally everyone followed him together. Under his strong leadership, entire the staff learned his style and the BOT has grown more and more prosperous.⁶

Yagyu himself is not only a man of strong leadership but also of self-discipline. Shinpei Goto introduced his character as follows:

He was very cautious and stable man. He was very strict about money and was

⁴ Shimuzu & Ono ed. 1922, 317

⁵ Shimuzu & Ono ed. 1922, 490

⁶ Shimuzu & Ono ed. 1922, 328

proof against corruption.⁷

His subordinate Jyokichi Ikeda (池田常吉) described him as follows:

He grasped and understood the small figures about business operations. He spared no investment for business expansion but strictly economized managerial expenses.⁸

Because of his family background, he was a person who strictly kept the traditional code of the Japanese swordsmanship which stressed courage, loyalty, self-discipline, simple living, and honor. He was nicknamed “Lord Yagyu” and was respected by subordinates. Yagyu was always aware of public duty and national interest, and it was because of his strong motivating power that the BOT developed its business to be more than just a colonial bank in Taiwan. Vice President Shimosaka described him in his memoir as follows:

He always said that he would not have accepted any position if the BOT was just an ordinal commercial bank. He said, “I am here because I am contributing to my country.”⁹

His leadership defined the development of the BOT from a colonial bank in 1900s to an international bank in 1910s.

(2) Development as a colonial bank in Taiwan

The BOT continued its steady growth. In 1904, they started to issue yen gold notes to adjust Taiwan’s currency standard from the silver to the gold standard as mainland Japan had done, then stopped issuing yen silver notes in 1909. The BOT promoted investment in Taiwan and financed specific sectors such as agriculture, infrastructure, export trade, and so on. The branch and agency networks gradually and strategically expanded outside of Taiwan to places such as Hong Kong (1903), Foochow (1905), Osaka (1906), and Swatou (1907).

The balance sheet results showed sound development in the period from 1901 to 1907. The total deposit accounts balance was 4,539,772 yen in 1901; 6,470,528 yen in 1902; 5,563,599 yen in 1903; 6,017,744 yen in 1904; 6,835,875 yen in 1905; 10,171,130 yen in 1906; and 11,862,070 yen in 1907. The total lending accounts balance was 6,988,439 yen in 1901; 9,987,909 yen in 1902; 9,392,622 yen in 1903; 10,274,627 yen in 1904; 10,655,558 yen in 1905; 14,464,390 yen in 1906; and 18,266,106 yen in 1907. The

⁷ Shimuzu & Ono ed. 1922, 414

⁸ Shimuzu & Ono ed. 1922, 241

⁹ Shimuzu & Ono ed. 1922, 491

balance of notes issued was 2,943,750 yen in 1901; 3,977,349 yen in 1902; 4,161,162 yen in 1903; 5,901,245 yen in 1904; 7,814,974 in 1905; 9,888,020 in 1906; and 10,638,502 yen in 1907. Bank profits were 82,645 yen in 1901; 162,589 yen in 1902; 153,714 yen in 1903; 178,301 yen in 1904; 215,546 yen in 1905; 247,503 yen in 1906; and 380,255 yen in 1907. The dividend rate was 9% from the second half of 1901 to 1904, and 10% in the first half of 1905.

The stable balance sheet and results a reflection of macro-economic growth in Taiwan. Taiwan succeeded to realize fiscal balance in 1905 and a favorable trade balance in 1907. Therefore, the BOT carried its business development into further stages. Originally, the Memorandum and Articles of Association clearly described the mission that the BOT is not only the central and development bank in Taiwan but also is an international bank servicing South China and Southeast Asia as a financial pillar of Japanese economic expansionism.

However, Yagyu was a man who favored prudent and thorough preparation. He ordered detailed research about potential businesses and markets in Asia. This project covered micro- and macroeconomics, socio-economic/political considerations, and a wide geographical distribution. The research began around 1907 and the research division was officially established in 1912; they subsequently published more than 350 reports. On the other hand, the BOT subsidized research activities by outsiders to collect information about Asia. Yagyu himself went to Europe on a tour of inspection from April 1908 to February 1909 to extend his knowledge and ideas for business expansion.

(3) Paradigm shift

In 1910s the BOT started expanding to overseas markets. In April 1910, the BOT increased its note-issuing limit to 10,000,000 yen and its capital to 10,000,000 yen to ensure sufficient reserves and capital. At the same time, the BOT had a plan to introduce foreign investors as strategic shareholders, however this plan was opposed by the MOF and was not realized. In the first half of 1910s, the branch and agency networks were obviously expanded to locations outside of Taiwan such as Canton and Tokyo (1910), Shanghai (1911), Singapore and Jiujiang (1913), London (1914), and Hankow and Surabaya (1915). Geographically, the network extended from mainland China to Southeast Asia. Meanwhile, the Tokyo branch was the second headquarters of the BOT and the London branch was a connecting point to the global financial system.

In mainland China, the BOT had committed business operations such as trade settlement, issuing of promissory notes, syndicate loans, and so on. Yagyu was personally interested in China market and released his conceptual plan for Meiji Bank (明治銀行) for Manchurian economic development in 1907. He also planned and attempted to implement currency reform in China in 1911, which was based on the circulation of silver yen coins and yen promissory notes. On the other hand, he

encouraged the establishment of Chunichi Jitsugyo (中日実業) in 1913 as an investment vehicle to China. Yagyu also released another conceptual plan for Nisshi Bank (日支銀行) in January 1915 as a joint venture banking institution using Chinese capital. It was realized as “Chunichi Bank” (中日銀行, opened in Henan province in 1917) and “Chuka Waigyo Bank” (中華匯業銀行, opened in Beijing in 1918). However, the circulation of silver yen coins had been decreasing after its peak in 1918. Some part of the syndicate loans turned non-performing, and joint ventures were also forced to restructure or liquidate in the late 1910s.

Another major target for outer expansion was the area between Southern China and Southeast Asia, which was connected to overseas Chinese business networks. In these areas, major European banks provided financial services to local merchants. The BOT tried adopt their business model and take over their market share. Yagyu noted his ambition of southward strategy as follows:

If it is impossible for the BOT to expand its business operations in the South because we have “Taiwan” in our name, we should not hesitate to remove or change it. Under the current situation and given our duty, there is no room to grow if we are stuck on this island with nothing to do about it.¹⁰

The turning point was outbreak of the First World War in 1914. Many European banks were involved in economic turmoil, which undermined the smooth conduct of business operations. This was a golden opportunity for the BOT and they significantly expanded their business in the South. Yagyu imagined was a tripod structure based on the areas of Taiwan, overseas, and mainland Japan. Within this structure, Taiwan was a linkage point of the greater Japanese economic area from Northeast to Southeast Asia. He enthusiastically believed this was the manifest destiny of the BOT. It was also linked with the popularity of “Southward Movement” in Japan, which sought economic opportunity in the South as reflection of outer expansionism.

Under these political and economic trends, the BOT started various kinds of new businesses. For example, the BOT and overseas Chinese merchants in Dutch East India discussed setting up a joint venture banking business with the aim of collaborating with overseas Chinese business networks to cultivate local business in Asia. In 1914, they also started loan and money order operations for Japanese rubber planters on the Malay Peninsula. In mainland Japan, they started promoting trade bill settlement and foreign exchange operations, targeting small and medium-size Japanese trading houses and manufacturers. In May 1915, the BOT increased their capital to 20,000,000 yen to support massive and rapid business expansion.

As a reflection of above trend, the balance sheet and results also showed expansion

¹⁰ Hekiyokai ed. 1918, 304

in the period from 1908 to 1915. The total deposit accounts balance was 11,188,747 yen in 1908; 17,436,923 yen in 1909; 18,860,969 yen in 1910; 23,869,329 yen in 1911; 34,029,398 yen in 1912; 43,286,968 yen in 1913; 54,187,098 yen in 1914; and 74,580,179 yen in 1915. It increased more than 6.6 times in 7 years. The total lending accounts balance also increased nearly 5.9 times; it was 19,563,829 yen in 1908; 26,204,174 yen in 1909; 27,965,832 yen in 1910; 35,586,617 yen in 1911; 45,157,240 yen in 1912; 57,054,418 yen in 1913; 62,002,295 yen in 1914; and 115,129,767 yen in 1915. The balance of notes issued was 9,704,212 yen in 1908; 13,007,234 yen in 1909; 16,049,411 yen in 1910; 19,381,989 yen in 1911. It recorded its peak of 20,414,850 yen in 1912, then it hovered around 18,785,608 yen in 1913; 14,247,876 yen in 1914; and 17,611,315 yen in 1915. Bank profits were 484,177 yen in 1908; 498,677 yen in 1909; 516,149 yen in 1910; 513,318 yen in 1911; 514,140 yen in 1912; 589,074 yen in 1913; 652,182 yen in 1914; and 861,819 yen in 1915. The dividend rate was 10% as before from 1908 to 1915.

(4) Behind the expansionism

However, massive expansion of the BOT caused a chain reaction of mismanagement and it became the remote cause of failure in the late 1920s. One of the factors is a loosening of financial and management control. Obviously, rapid expansion of business operations exceeded the management resources or ability of the organization in the middle of 1910s. For example, a letter from Yagyu to a director in October 9, 1914 suggests that the BOT fundraising could not catch up with its enormous capital demand for business expansion:

The financial condition of the BOT is not smooth right now. It is difficult to get more accommodation from the BOJ. However it is impossible to abandon our business plans and we should do the best with all our might.¹¹

Another factor is a change in the relationship with political powers. Yagyu strictly kept distant from political powers and tried to minimize their influence on the BOT. However such organizational culture gradually changed and gave rise to a corrupted relationship with politicians or politically backed businessmen. This influenced the bank's management and caused moral hazard in the organization. On the other hand, there were a lot of conflicts of opinion between the BOT and the MOF at the time because of its rapid expansion to overseas markets. The MOF had intended to reduce the influence of the TGO which encouraged and supported Yagyu and the BOT's overseas expansion in line with their Southward policy. Therefore, Yagyu made strenuous efforts to maintain a balance between both authorities.¹²

¹¹ Shimuzu & Ono ed. 1922, 237

¹² "Yagyu was totally isolated in Taiwan. This was because of not only his overweening pride but also the influence of central political powers." (Sugiyama 1929, 304)

In late 1915, Yagyu suddenly considered resigning as president after he met Soeda in Tokyo in August. Obviously, it was because of political pressure from the MOF, which tried to control the BOT. The MOF had to select the next president but dismissed the promotion of vice president Nakagawa, who was backed by Duke Kinmochi Saionji (西園寺公望), a court noble and powerful political figure. Therefore, the MOF appointed their assistant vice minister Tetsutaro Sakurai (櫻井鐵太郎) as the new president of the BOT.

In January 1916, Yagyu officially resigned his position and left the BOT. In April 1917, he was appointed director of Nippon Yusen (日本郵船), the biggest shipping company in Japan. He also accepted the position of senior advisor of the China and Southern Bank (CSB, a.k.a. Kanan Ginko, 華南銀行) and establishing committee member of Taiwan Electric (台灣電力) in 1919. However, he passed away from a chronic disease in January 1920 at the age of 56.

4. Tetsutaro Sakurai, the third president: 1916-1920

(1) Background of Sakurai

Sakurai assumed office as president in January 1916. He was born in Shizuoka prefecture in 1865 and graduated from the Faculty of Law at the Imperial University in 1890. He joined the Board of Audit and transferred to the Ministry of Home Affairs. He was appointed deputy director-general of Nagano and Fukuoka prefectures, chief of police of Okayama prefectural police, and secretary of Ibaragi prefecture. He was transferred to the MOF and was appointed chief of the tax inspection department of the Tokyo tax bureau, chief customs inspector of Kobe customs, director-general of the tax bureau, customs bureau and monopoly bureau, and then promoted to assistant vice minister.

He had an even temperament but was indecisive and lacking in self-assertion. Known as a capable official but not from the main current of the MOF, he could not be promoted further. However, from the view point of the MOF, his appointment as president of the BOT was appropriate. At the time, the top management of the BOT was in a delicate situation between the MOF, the TGO and the part of board of directors who were backed by specific political or interest groups. Therefore, the MOF had to send a man who would follow their intention exactly while not to causing any trouble with others.

When Sakurai was appointed, the tide was still running in favor of the BOT. The economy was unprecedentedly prosperous due to special procurement demands for the world war. The branch and agency networks continued to expand to Semarang, Yokohama, New York and Bombay in 1917, Batavia, Touen (桃園) and Nantou (南投) in 1918, and Moji and Bangkok in 1919. In business operations, the mainland Japan branches started to promote “trust deposits” in November 1916. It was the first unit trust product in Japan, which became popular with retail customers. In December 1917, the BOT applied to increase its limited security reserve up to 20,000,000 yen, which was

approved in April 1918. In 1919, the CSB was established as a joint venture with overseas Chinese merchants in Asia. It was an important subsidiary bank which aimed to cultivate local customers and business in the markets around South China and Southeast Asia. To support business expansion, the BOT increased its capital to 30,000,000 yen in April 1918 and to 60,000,000 yen in September 1919. Sakurai made a speech at an extraordinary shareholders meeting in 1919 as follows:

We had a plan to increase our capital during wartime. However, aware of the back reaction of economy, we suspended this plan and had been waiting for another opportunity. Today, we need more capital to facilitate the expansion of our business operations and investments, which is supported by the booming domestic/overseas economic trends after the war. Therefore, we decided to increase our capital up to 60,000,000 yen.¹³

However, the above speech suggests that the BOT lost their cautiousness and proper vision as a banker in the euphoria of a bubbling economy.

(2) Decline in financial position

The results of the BOT had still had been growing superficially in the period from 1916 to 1919. Bank profits increased to 906,223 yen in 1916; 1,351,637 yen in 1917; 1,873,968 yen in 1918; and 2,718,236 yen in 1919. The dividend rate stayed at 10% as before. However, the balance sheet indicates a decline in financial position. The total deposit accounts balance was 116,106,820 yen in 1916 and recorded its peak of 428,073,128 yen in 1918 before decreasing to 319,671,306 yen in 1919. The total lending accounts balance also recorded a double increase from 172,609,428 yen in 1916 to 357,955,726 yen in 1917, then reached 457,271,450 yen in 1918 and 524,964,455 yen in 1919. However, this was a reflection of bad loans made in mainland Japan in the late 1910s that would turn into non-performing loans later. A more remarkable point is the debt and loan accounts. The total debt accounts balance was only 150,000 yen in 1916, zero in 1917 and 1918 but then suddenly recorded 44,700,000 yen in 1919. The BOT also took huge amount of call loans totaling 60,220,000 yen in 1919 compared with zero before. Obviously, this suggested the shortage of funds in its financial position.

In the same period, there were some rumors that the BOT was hiding bad loans in their subsidiaries such as the CSB. Sankuro Ogasawara (小笠原三九郎), managing director of the CSB recounted the following story in his memoir:

I frequently got bad rumors from Taiwan. It was that we shoulder bad loans from the BOT. At the time, the BOT was affected by the increase in non-performing

¹³ Jiji Shinpo 1919, September 2

loans due to the depression, and some insiders reported this to the MOF. Management expected that the MOF would inspect account books sooner or later. They were embarrassed and tried to hide non-performing loans with us to dodge their responsibility.¹⁴

However, the economic perspective of Sakurai and the BOT was still optimistic. In January 1920, Sakurai mentioned a possible economic downturn but remained bullish as reflected in the following statement:

Some people warning about serious depression after the war, however I believe it is not necessary to worry about it too much. We can avoid the negative effects of depression if we closely watch the situation and keep sound management. This year is the time for caution but also for enjoying the harvest of prosperity.¹⁵

Soon the crash came in March 1920. Stock markets in Tokyo and Osaka plunged and triggered a serious depression. The BOT's business operations and financial position deteriorated drastically. Sakurai was quick to seize an opportunity. He abandoned his position in August and became the Mayor of Kobe in October 1920.

5. Kojyuro Nakagawa, the fourth president: 1920-1925

(1) Background of Nakagawa

Kojyuro Nakagawa was born in Kyoto in 1866 and graduated from the Faculty of Law at the Imperial University in 1893. His family were attendants of Duke Kinmochi Saionji, a court noble and powerful politician. Because of this family background, he served for Duke Saionji as secretary to the Minister of Education then resigned his position in 1898 following Duke Saionji's resignation as Minister. In 1900, he established Kyoto Housei Gakkou (京都法政学校, Kyoto School of Law and Politics, later called Ritsumeikan University, 立命館大学). In 1906, he served Duke Saionji again as secretary to the cabinet and prime minister of the first Saionji cabinet. After a general resignation of the Cabinet in 1908, he was transferred to Karafuto Prefecture (Karafuto-cho, 樺太庁) in South Sakhalin.¹⁶ In September 1912, he was appointed as vice president of the BOT when the bank began its external expansion outside of Taiwan.

The reason of his transfer to the BOT was not only his political background; he was also an enthusiastic "Southward Movement" activist as the chancellor of Kyoto Housei Gakkou. He stated his opinion about the role of the BOT as follows:

¹⁴ Ogasawara 1964, 169-170

¹⁵ Jiji Shinpo 1920, January 6

¹⁶ Karafuto Prefecture was a hotbed of corruption and one of sources of political funds for Duke Saionji and his political party "Rikken Seiyukai" (立憲政友会, Constitutional Association of Political Friendship).

We should remember the function of Taiwan, which is not the far part of the Empire but a stepping stone of our economic expansion to South China and Southeast Asia. We need to reconsider the role of financial institutions in Taiwan from a more advanced level.¹⁷

Nakagawa also believed that the BOT should expand its merchant banking business to support Japan's overseas activities in Southeast Asia. Therefore, he strongly encouraged Japanese entrepreneurs overseas after he joined the BOT. One example of this is the venture business by Hiroichiro Ishihara (石原廣一郎) who was a student of Kyoto Housei Gakkou and became a business tycoon in Southeast Asia in 1930s. In 1919, Ishihara planned an iron ore mining business in Johor, British Malay. He approached Nakagawa and heard back from him; Nakagawa sent a senior banker to Johor to inspect the site and introduced Taiwanese investors to Ishihara. In February 1920, the BOT loaned a total of 350,000 yen to Ishihara and his plan was successful.

However, Nakagawa was not a professional banker. His relationship with entrepreneurs or speculators who had a strong need for capital was inappropriate because personal considerations could cause a loosening of management discipline or an increase in moral hazard. Business gossip at the time reported many troubles the following illustrates:

Nakagawa criticized former president Sakurai regarding the non-performing loans to Suzuki Shoten, but he loaned out a few more tens of million yen immediately after he took over his position as president. Some rumors said that, because of his personal relationship with the troubled Kuhara business group, he overpowered his opponents in management and loaned out a few more tens of million yen, which was highly likely to turn uncollectible debt. He also strictly ordered the general manager of Osaka branch to loan the bank's money to Jinsuke Hiraabayashi, a famous speculator and businessman with political contacts. But he fired the general manager once the loan became irrecoverable.¹⁸

He had a big vision for national interests however did not have knowledge of finance, economics or actual management. Such a man was not capable of dealing with the difficult situation of the depression in the early 1920s. Business gossip criticized Nakagawa as follows:

He lacks experience or skill as a professional banker but is well experienced as a politician. He totally controlled the BOT as his own after former president

¹⁷ Jiji Shinpo 1923, January 4

¹⁸ Asahi Shinbun Economic Reporter ed. 1924, 190-191

Sakurai left his office. Other senior management can't oppose against him.¹⁹

(2) Deteriorating financial position

The influence of depression and the mismanagement with moral hazard led by Nakagawa, resulted in a drastic deterioration in the period from 1920 to 1925.

The BOT posted its record profit of 3,100,325 yen in 1920. This was followed by a downward trend in profits: 3,091,877 yen in 1921; 2,340,858 yen in 1922; 2,357,708 in 1923; 2,359,723 yen in 1924; and 1,371,440 yen in 1925. In particular, the BOT posted a huge loss of 26,493,197 yen in the first half of 1925. However, the loss was covered by a reduction of paid-up capital from 52,500,000 yen to 39,375,000 yen and a reversal of funds in reserve from 14,180,000 yen to 1,840,000 yen in the second half of 1925. The dividend rate was 10% until the first half of 1922 but was reduced to 7% starting in the second half of 1922; dividends were suspended altogether in the first half of 1925.

The balance sheets also reflected the difficulties of the financial position. The total deposit accounts balance was 191,127,496 yen in 1920; 160,720,442 yen in 1921; 170,500,634 yen in 1922; 201,905,109 yen in 1923; 224,984,346 yen in 1924; and 134,380,341 yen in 1925. On the other hand, the total lending accounts balance was 455,939,149 yen in 1920; 498,508,748 yen in 1921; 552,645,209 yen in 1922; 630,608,627 yen in 1923; 716,453,684 in 1924; and 669,358,762 yen in 1925. Obviously, the loan-deposit ratio reflects extreme over-lending.

This deterioration was caused by a rapid increase in bill discount operations, which recorded 227,337,996 yen in 1920; 224,050,435 yen in 1921; 266,517,049 yen in 1922; 312,006,429 yen in 1923; 375,369,966 in 1924; and 408,055,514 yen in 1925. The amount was pushed up by a "moratorium bill" issued by troubled borrowers of the BOT after the Great Kanto earthquake in 1923. On the other hand, ordinal loans comprised a relatively small amount of total lending but increased from 58,197,617 yen in 1920; 60,838,650 yen in 1921; 61,443,813 yen in 1922; 64,015,676 yen in 1923; 72,657,990 yen in 1924; to 77,881,989 yen in 1925.

The only way that the BOT could cover its shortage of funds was borrowing. The total debt accounts balance drastically increased. It was 165,915,893 yen in 1920; 216,003,414 yen in 1921; 233,205,296 yen in 1922; 300,285,344 yen in 1923; 371,723,637 yen in 1924; and 460,486,148 yen in 1925. The Jiji Shinpo newspaper described the critical financial position of the BOT in May 1922 as follows:

As a colonial bank in Taiwan, South China and Southeast Asia, the BOT is not only supporting overseas Japanese business activities in the area but also has a duty to providing financial services as an exchange bank. However, they only have special privilege of note issuing rights for 30,000,000 yen and are now facing

¹⁹ Asahi Shinbun Economic Reporter ed. 1924, 190

a serious funds shortage. Their financial position strained by serious irregularities, such as the need to take tens of millions in coal loans to cover their fixed lending.²⁰

(3) Restructuring of the business model

The MOF and the BOJ tried to save the BOT and closely monitored the situation. In November 1920, the BOJ supplied a total of 20,000,000 yen in extra funds to the BOT to ease its tight financial position. In June 1921, the MOF sent a special inspection team to Taipei to review the situation. Nakagawa and the top management team started to restructure the business model and set up a special task force team in the Tokyo branch.

In April 1922, the BOT announced it was changing its business model as follows: (a) concentrate on exchange banking business, (b) collect the loans in mainland Japan branches as soon as possible, and (c) spin off the mortgage business in Taiwan and the development finance business in Southeast Asia. On the other hand, the BOT asked the MOF and the BOJ for special favors such as low interest special financing from the BOJ to support foreign exchange operations and permission for bond-issuing rights to support overseas Japanese business. The MOF required the consolidation of non-performing loans, cost cutting and dividend reductions. The BOT accepted these requirements.

However, the BOJ had another intention for high-level political struggle behind this aid. The BOJ required the BOT to accept a new vice president candidate, Hirozo Mori (森廣蔵), ex-director of YSB and loyal subordinate of Junnosuke Inoue (井上準之助), governor of the BOJ and a political enemy of Duke Saionji and his political party. Governor Inoue tried to limit the influence of Nakagawa not only in actual management but also through a hidden political agenda to cut or reduce the flow of political funds from the BOT to Duke Saionji via business cronies.²¹

In March 1923, the BOT organized a secret meeting with the MOF, the BOJ, influential business figures, advisors, and major shareholders to discuss the restructuring plan. Subsequently, the special resolution passed at a general shareholders meeting in April and the BOJ agreed to provide a total of 60,000,000 yen to the BOT.

(4) Point of no return

The BOT tried to change its business model from a general banking institution to an exchange banking institution. However, in June 1923, the exchange business in China and Southeast Asia received a blow from the boycott of Japanese goods. In September 1923, the Great Kanto earthquake hit the Japanese economy, which caused an increase

²⁰ JIJI SHINPO 1922, May 11

²¹ "Mori and his subordinates tried to cultivate the resource of political funds for their boss, Junnosuke Inoue who had a strong ambition to political arena." (Ogasawara 1964, 308)

in uncollectable loans.

For example, Kuhara Shoji (久原商事) which was led by Fusanosuke Kuhara (久原房之助), an adventurous entrepreneur, was a major borrower that business operation suspended in November 1923. Kuhara had a strong political connection with Kenjiro Den (田健治郎), the governor of Taiwan from 1919 to 1922. Governor Den supported Kuhara's natural resource development plan in Southeast Asia and the BOT supplied the loans. The remaining debt balance was nearly 21,000,000 yen at the time and the BOT could only collect 8,000,000 yen from Kuhara Shoji.²²

A more serious example was that of Suzuki Shoten, which was a major reason for the collapse of the BOT. Suzuki had monopolized the camphor oil business in Taiwan since the late 1890s because they had a strong connection with Shinpei Goto, the ex-chief of home affairs of TGO who became a powerful politician later.²³ Suzuki's remaining debt balance was nearly 80,000,000 yen in March 1920. However Suzuki had massively diversified its business worldwide in 1910s and it was seriously damaged by the depression in the early 1920s. In May 1922, the BOT tried to rescue Suzuki and arranged additional financing by bill discount up to 50,000,000 yen under the special permission of the MOF and the BOJ. However, Suzuki over-issued promissory bills that made bad use of the moratorium after the Great Kanto earthquake. The BOT created a special task force team, which was in charge of Suzuki matter. Sankuro Ogasawara, who was the chief of task force team at the time, described the situation as follows:

It was a highly confidential matter about Suzuki. Because once the net position of the lending to Suzuki leaked, it may cause financial disturbance both inside and outside of the BOT, and might cause a run on the bank. So I strictly controlled any information and kept all related confidential documents in a safe box beside my desk. One day, at the general manager meeting, someone asked a question about lending to Suzuki, but president and directors looked at each other and did not answer anything.²⁴

The above passage shows that BOT's corporate governance did not work properly in the catastrophic situation, and the BOT had already crossed the point of no return.

In March and September 1924, the BOT presented restructuring plans to the MOF and the BOJ again. However, Kihachiro Okura, who was a big business figure and a senior advisor of the BOT since 1899, suddenly resigned his position as auditor. On the other hand, the BOT could not stop additional loans to Suzuki. The remaining debt balance for Suzuki was recorded at more than 280,000,000 yen at the end of 1924. Under this catastrophic situation, the BOT's top management decided to call Nakagawa

²² Ogasawara 1964, 167

²³ 'Corrupted fatal tie between the BOT and Suzuki was mediated by Goto.' (Kokumin Shinbun 1935, February 6)

²⁴ Ogasawara 1964, 269

to account.

In August 1925, the BOT announced that Nakagawa's term of office had expired and that he retired his position as president. After this "retirement," he was elected as a member of the House of Peers by imperial nomination in December 1925. After that, he took an active part in the political arena as a close advisor of Duke Saionji. At the same time, vice president Mori was promoted to president and he tried to rescue the BOT. In September 1925, another restructuring plan passed the general shareholders meeting, however the MOF and the BOJ had already abandoned this "sinking ship." Only politicians, rogue businessman and speculators were involved in the BOT. The reputation the BOT used to have—as representing the high ideal of national interest and as a financial pillar for Japanese overseas expansion—was gone.

6. Conclusion

This brief history of the BOT from 1899 to 1925 does not overturn the established story. However, by focusing on the side stories about presidents as top management, we can better understand the background of the story.

Jyuichi Soeda, the first president, was not only an able official and theoretician but also an excellent negotiator and mediator. As a top manager of the newly established bank for the development of Taiwan, he was required to perform multiple tasks for the smooth establishment and operation of the organization. He completed his mission within two years and the framework he established provided the ground for the BOT's subsequent development.

Kazuyoshi Yagyū, the second president, inherited Soeda's solid legacy and consolidated the basis of the BOT. Personally, his character was strict and cautious. Therefore he took a conservative approach to overseas business expansion even though he had great vision and a passion for it. However, he was not a professional banker. Under the booming economy during the First World War, he was obsessed with the massive and rapid expansion of business operations far beyond the organization's capacity. This stimulated and revitalized the organization, however the BOT gradually lost this conservative attitude as banking institution.

Tetsutaro Sakurai, the third president, was a typical bureaucrat with a lack of practical banking or management experience. He was a nominal head and could not manage the BOT under the trend of expansionism in the booming economy. This would lead the BOT to the catastrophic situation of the 1920s.

Kojuro Nakagawa, the fourth president, had a strong political background and this made situation more complicated. He also had high ideals of the "Southward Movement" and was an enthusiastic promoter of it. However, he lacked ability as a professional banker and much more as a politician. Therefore, the BOT was infiltrated by political powers and speculative businessmen. Under the deteriorating situation in the early 1920s, Nakagawa could not take decisive action and abandoned the BOT for the

political arena with a golden parachute.

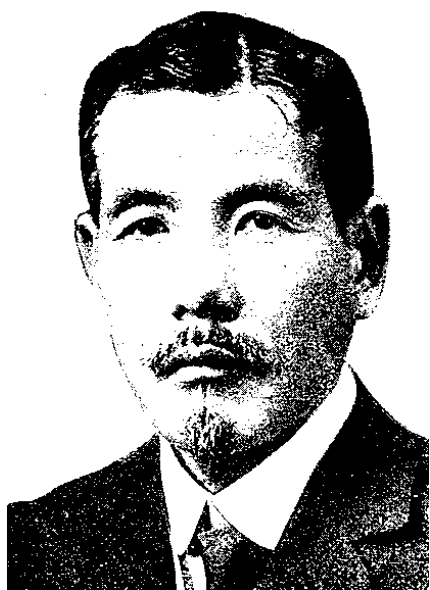
The four presidents had bureaucratic backgrounds and were not professional bankers because the BOT was a semi-governmental financial institution with a public mission. However, the necessary attitudes of bankers and bank leadership are different from those of bureaucrats and other business sectors. A banking institution is a pillar of economic system and its management should be solid as a rock. Therefore, bankers require self-discipline and a conservative attitude. They must respect the organizational structure and process and lead the organization with a consensus from all interest groups. With the exception of Soeda, these presidents were not suitable for top management of a banking institution. In other words, the BOT failed to cultivate a solid top management system in the 26 years of its rise and fall.

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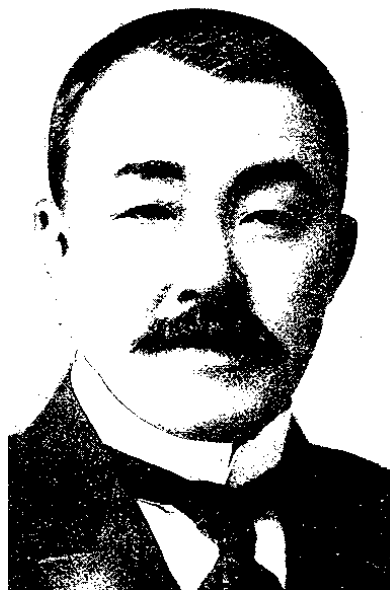
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Portraits of the presidents of the Bank of Taiwan



Jyuichi Soeda, the first president



Kazuyoshi Yagyū, the second president



Tetsutaro Sakurai, the third president



Kojuro Nakagawa, the fourth president

Source: BOT 1939