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The Establishment of the China and Southern Bank and the Southern Warehouse Company: In Relation to the Bank of Taiwan's Southward Strategy with Overseas Chinese from the 1910s to the 1920s

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February 2018

Abstract

This paper elucidates how the Bank of Taiwan (BOT, 台灣銀行) tried and failed to approach the market between South China and Southeast Asia in the 1910s and 1920s through an analysis of a brief history of two affiliate companies: the China and Southern Bank (CSB, 華南銀行) and the Southern Warehouse Company (SWC, 南洋倉庫). Under political and economic trends of the Southward Movement (南進論) of the 1910s, the BOT tried to enter South China and Southeast Asia by themselves but recognized the difficulties, and formed an alliance with Overseas Chinese. Therefore, the CSB and SWC, which were established in 1919 and 1920, respectively, to promote economic cooperation with Overseas Chinese to facilitate market entry in the south by Japanese capitals. However, both companies faced managerial difficulties upon development in the early 1920s.

Keywords: the Bank of Taiwan; the China and Southern Bank; the Southern Warehouse Company; Southward Movement; Financial history; Economic history.

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1. Introduction

This paper elucidates how the Bank of Taiwan (BOT) tried and failed to approach the market between South China and Southeast Asia in the 1910s and 1920s through an analysis of a brief history of two affiliate companies: the China and Southern Bank (CSB) and the Southern Warehouse Company (SWC).¹

The BOT was established by the Japanese government in 1899. As a central bank and development bank of Taiwan, they provided not only general banking services, but also engaged in note issues, development finance, and bond underwriting. On the other hand, the BOT was specified in the ambitious business development plan in the prospectus of the BOT Act which said they would expand market territory to Mainland China and Southeast

¹ For an overview of the BOT, see the BOT ed. 1910, 1916, 1919, 1939; EOBOOTH ed. 1964. For a detailed discussion, see Namikata 1985; Ashihara 1986; Ito 1989; Sunaga 2005; Yokoi 2005; Hisasue 2012, 2017. For the CSB, see Hisasue 2010, 2015. For the SWC, see SWC 1936 and Ishihara 1970.

Asia as a financial pillar for Japanese economic expansionism.²

Under political and economic trends of the Southward Movement in the 1910s, the BOT tried to enter South China and Southeast Asia by themselves but recognized the difficulty. Therefore, they formed an alliance with Overseas Chinese who controlled commercial networks in the region, and established affiliate companies as joint ventures with them. The CSB and SWC, which were established in 1919 and 1920, respectively, to provide financial and logistics services for both Japanese and Overseas Chinese customers, and to promote economic cooperation with Overseas Chinese to facilitate market entry in the south by Japanese capitals.

However, the BOT fatally miscalculated the reality of their “partnership” with the Overseas Chinese, and could not create any actual business opportunities or synergistic effects in their joint ventures. Meanwhile, the BOT’s rapid expansionism failed in the early 1920s due to the serious economic depression after the First World War, and they temporarily closed their doors in 1927. Moreover, due to weak corporate governance, lack of sufficient support from the BOT, and a depression in South China and Southeast Asia, both companies faced managerial difficulties upon their development in the early 1920s. Their relationship gradually broke down and they separated in the late 1920s.

First, in chapter 2, we start with the origin and background of the BOT’s southward strategy, then in chapter 3, we describe the story behind the failed Ken-en Bank (軒轅銀行) project that lasted from 1912 to 1915. In chapters 4 and 5, we examine detailed stories about the establishment of the CSB and SWC, then describe their limitations and restructuring in chapter 6, and find the reasons behind the structural problems of both companies in chapter 7. In the final chapter, we describe the changing relationships among the BOT, CSB, and SWC in the 1920s and 1930s.

2. Background of the southward strategy

As a result of the Japanese-Qing War (日清戦争), the Qing Dynasty (清朝) ceded the island of Formosa to Japan in 1895. For Japan, this island was not only a new colony of the empire, but also a strategic base for expanding its power to South China and Southeast Asia. Therefore, the BOT, which was established in 1899, added their mission in the prospectus of the BOT Act which stated that the BOT was not only a central bank and development bank in Taiwan, but also an international bank which serviced both South China and Southeast Asia as a financial pillar of Japanese economic expansionism.

However, at the first stage, the BOT had to establish a stable business model as the central and development bank in the colony, and its overseas expansion was relatively slow

² BOT 1910, 3.

and limited until 1907. They only opened four overseas branches and agencies such as Amoy (廈門, 1900), Hong Kong (香港, 1903), Foochow (福州, 1905), and Swatow (汕頭, 1907). These were all located in South China because of the policy of the Taiwan Governor's Office (TGO, 台灣總督府) and the Ministry of Finance (MOF, 大藏省). The TGO recognized that Taiwan is an advance base to make an approach on Mainland China, especially in the southern part of China, as a new frontier. The MOF had intended to avoid unnecessary competition in the Chinese market between the BOT and the Yokohama Specie Bank (YSB, 橫濱正金銀行). Therefore, the MOF geographically drew a dividing line between the Yangtze River (揚子江) and the BOT, which was in charge of the southern part, then between the YSB, which was in charge of the northern part.

Taiwan succeeded in realizing a fiscal balance in 1905 and a favorable trade balance in 1907. As a reflection of their macro-economic growth in Taiwan, the BOT established a stable business model and saw financial results. Subsequently, the BOT carried its business development into further stages for its outer expansion. However, Kazuyoshi Yagyu (柳生一義), the second president of the BOT, was a man who favored prudent and thorough preparation. He ordered detailed research about general information, markets, and potential businesses in Asia. This project covered micro and macroeconomics, socio/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.

In the first half of the 1910s, the BOT started full-scale expansion to overseas markets. The branch and agency network was obviously expanded to locations outside of Taiwan such as Canton (廣州, 1910), Shanghai (上海, 1911), Singapore and Jiujiang (九江, 1913), London (1914), and Hankow (漢口) and Surabaya (1915). Geographically, the network extended from Mainland China to Southeast Asia.

However, at this stage, the BOT had focused on and was committed to business operations in Mainland China including trade settlements, the issuing of promissory notes, and syndicate loans. It was noteworthy that President Yagyu was personally interested in the Chinese market. He released his conceptual plan for the Meiji Bank (明治銀行) to be part of Manchurian economic development in 1907, and 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.³ On the other hand, he encouraged the establishment of the Chunichi Jitsugyo (中日実業) in 1913 as an investment vehicle to China. Yagyu also released another conceptual plan for the Nisshin Bank (日清銀行) in January 1915 as a joint venture banking

³ However, the circulation of silver yen coins had been decreasing after its peak in 1918.

institution using local Chinese capital.⁴

Another major target for outer expansion was the area between South China and Southeast Asia, which was connected by Overseas Chinese business networks. In this area, major European banks had provided financial services to local merchants directly and indirectly since the late 19th century. The BOT tried to adopt their business model and take over their market share. Yagyu mentioned his ambitions for a southward strategy:

If it is impossible for the BOT to expand its business operations in the south because we have “Taiwan” in our name, so 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.⁵

The turning point was the outbreak of the First World War in 1914. Many European banks were involved in the economic turmoil which undermined the smooth conduct of business operations in Asian markets. This situation was a golden opportunity for the BOT because it created a huge space in the existing market for them to enter, so the BOT significantly expanded their business in the south. Yagyu imagined a tripod structure based on the areas of Taiwan, overseas, and Mainland Japan. Within this structure, Taiwan was a linkage point to the greater Japanese economic area from Northeast to Southeast Asia. He enthusiastically believed that this was the manifest destiny of the BOT. It was also linked to the popularity of the Southward Movement in Japan, which sought economic opportunity in the south as a reflection of outer expansionism.

3. The Ken-en Bank project

Under the political and economic trends of the Southward Movement, the BOT started various kinds of new businesses in Southeast Asia. One symbolic example was a joint venture project for a banking business called the Ken-en Bank, which aimed at collaborating with Overseas Chinese business networks to cultivate local business in Southeast Asia.

The original proposer of this project was Quek Chun-yong (郭春秧), a successful tea and sugar trader in Semarang, Java. He was born in China’s Fujian (福建) province and moved to Java with his uncle around 1878. His commodity trading business gradually expanded, especially with tea exports from Taiwan and sugar exports from Java. He gained Japanese

⁴ It was realized as the Chunichi Bank (中日銀行, opened in Henan province in 1917) and the Chuka Waigyo Bank (中華滙業銀行, opened in Beijing in 1918). However, many parts of the loans turned out to be non-performing, and joint ventures were also forced to restructure or liquidate in the late 1910s.

⁵ Hekiyokai ed. 1918, 304.

citizenship in 1895 and had close connections with Japanese diplomats in Java. Since 1912, Quek Chun-yong and his partners discussed setting up a western style bank under the name of Ken-en Bank in Java, but could not raise the statutory minimum capital because of serious struggles with his business competitor Oei Tiong-ham (黃仲涵).

Therefore, Quek Chun-yong and his close associate Kazue Tsutsumibayashi (堤林數衛)⁶ tried to borrow sufficient funds from the BOT and made contact with Goji Ukita (浮田郷次), the Japanese consul in Batavia in May 1913. The details of the Ken-en Bank project are as follows: 1) the head office was located in Semarang; 2) potential investors were 47 Overseas Chinese with 1.21 million guilders; and 3) the total amount of potential loans from the BOT was 500,000 guilders for three years at 5% or lower annual interest.⁷ Ukita reacted positively, even regarding the trouble between Quek Chun-yong and Oei Tiong-ham, and sent a letter to the general manager of the BOT's Singapore branch to consider the feasibility of this project.⁸

Through their negotiations, Quek Chun-yong accepted the conditions of the BOT such as 6% annual interest rate. In June 1913, the policy bureau chief of the Ministry of Foreign Affairs (MOFA, 外務省) in Tokyo sent an official letter to BOT President Yagyu to ask for support for the project.⁹ However, the project was suspended in September because of an escalation in the serious power struggle between Quek Chun-yong and Oei Tiong-ham in Java.¹⁰

Meanwhile, this project stimulated President Yagyu and Vice President Kojyuro Nakagawa (中川小十郎), who were strong supporters of the Southward Movement.¹¹ Therefore, the BOT continuously researched the feasibility of a joint venture opportunity with Overseas Chinese. They published a detailed report titled "Overseas Chinese (Chinese Immigrants) in Southeast Asia with a Report on Their Remittance Activities" in December 1914. In the conclusion of this report, the BOT suggests a potential business plan with

⁶ Tsutsumibayashi moved to Taiwan in 1895 where he worked as a jailer and studied the Fujian dialect. He met Quek around 1897 and started to work for his trading firm. Their relationship was like that of a master-apprentice, and Tsutsumibayashi established his trading company Nanyo Shokai (南洋商会) in Java in 1909, which was strongly supported by Quek.

⁷ MOFA 1913.5.13.

⁸ MOFA 1913.5.13.

⁹ MOFA 1913.6.9.

¹⁰ MOAC 1915.3.31.

¹¹ Nakagawa was an enthusiastic Southward Movement activist and stated his opinion about the role of the BOT: "We should remember the function of Taiwan, which is not being the far part of the Empire, but a stepping stone for our economic expansion toward South China and Southeast Asia. We need to reconsider our duty as a financial institution to reach a more advanced level." (Jiji Shinpo 1923.1.4.)

Overseas Chinese as follows; 1) unite leading Chinese merchants in South China and Southeast Asia, then establish Overseas Chinese banks in Surabaya, Batavia, Semarang, Bangkok, Saigon, Penang, and Manila; 2) the BOT will accommodate these banks with sufficient funding and accept their remittance orders; and 3) the BOT will invest in these banks as a shareholder and send directors to manage its banking operations.

During the same period, the BOT's business operations in Mainland China faced difficulties and they needed to find opportunities in other overseas markets. Meanwhile, because of the outbreak of the First World War in 1914, many European banks were involved in economic turmoil, which undermined the smooth conduct of business operations in Southeast Asia. In line with this background, the BOT restarted negotiations with Quek Chun-yong to establish the Ken-en Bank.

In January 1915, Taishiro Mizuno (水野泰四郎), who was in charge of opening the Surabaya agency, met with Quek Chun-yong and recommended that he restart negotiations for a joint venture project.¹² A few days later, Quek Chun-yong met with Secretary Kinji Nagamitsu (長満欽司) of the Ministry of Agriculture and Commerce (MOAC, 農商務省), and revealed his positive response to the offer from the BOT.¹³ Because of the war's outbreak and soaring sugar prices, Quek Chun-yong earned nearly 1.5 million guilders profit from commodity trading, which provided him with the necessary capital to establish the bank.¹⁴ In February, Quek Chun-yong sent a new proposal to the BOT which offered equal investment joint ventures with 2 million guilders.¹⁵ In April, Etsuji Yanagi (柳悦耳), new general manager of the Surabaya agency, officially started negotiations with Quek Chun-yong and sent a report to the head office in Taipei in May which said, "It would be better to accept Quek's offer and establish the Ken-en Bank in Java first, then set up other banks and expand businesses around Southeast Asia and South China."¹⁶ Yanagi also mentioned that the BOT should appoint Chinese directors in name only, and that the Japanese would have to be in charge of management.

However, the Taipei head office and Tokyo office had a clearer and grander vision for a joint venture with Overseas Chinese. They hoped to establish the Greater Overseas Chinese Bank (GOCB, 大華僑銀行), which would rally and unite leading Chinese merchants in Southeast Asia and South China. In May 1915, an anti-Japanese boycott movement began in Java, and the BOT gradually lost interest in the Ken-en Bank project. In July, Yanagi met

¹² BOT 1915.2.12.

¹³ BOT 1915.2.12; MOAC 1915.3.31.

¹⁴ BOT 1915.2.12.

¹⁵ BOT 1915.2.12.

¹⁶ BOT 1915.5.8.

with Quek Chun-yong and told him that the BOT's first priority was to establish the GOCB and only allow investments of 200 thousand guilders on a paid up basis for the Ken-en Bank.¹⁷ Furthermore, the BOT required that Quek Chun-yong accept other potential investors from Java, Taiwan, and Singapore, such as Oei Tiong-ham.¹⁸ Quek Chun-yong disagreed and distrusted the BOT, so both sides ceased negotiations in early October.

4. Establishment of the CSB

Meanwhile, the BOT already made concrete plans for the GOCB and published the "Outline of the Overseas Chinese Bank (Alias Southeast Asian Bank)" in November 1915, both in Japanese and Chinese languages.

This proposal suggested that the BOT arrange enough capital from Japanese and Chinese investors, then establish which market territory in Southeast Asia would be used for the GOCB, and build close connections not only with major banks in South China and Japan, but also with small and medium-sized native banks in the territory to promote remittance business.¹⁹ The GOCB would be a joint venture with Overseas Chinese and Japanese who were the leading merchants and business organizations from Singapore, Penang, Rangoon, Padang, Batavia, Surabaya, Banjarmasin, Makassar, Bangkok, Saigon, Hanoi, Manila, Hong Kong, Canton, Swatow, Amoy, Fuchou, Shanghai, Taipei, Kobe, Osaka, Yokohama, and Tokyo.²⁰ The capital was 30 million Japanese yen equivalent and the first paid up capital was 7.5 million Japanese yen equivalent.²¹ They would provide not only commercial banking services, but also bond issuing and underwriting, syndicate loan underwriting, and trustees.²²

However, the BOT needed three more years to finalize the project. Negotiations with Quek Chun-yong had already ceased, and it was difficult to find the appropriate Overseas Chinese leaders who were able to work with diversified and complicated Chinese networks between Southeast Asia and South China. Moreover, the BOT had to arrange official support from the Japanese government. Yagyu had been prevailed on by politicians and bureaucrats about the *raison d'être* of the GOCB after his resignation as president in 1916.²³ His successors, such as President Tetsutaro Sakurai (櫻井鐵太郎) and Vice President Nakagawa, also did their best to realize the project.

¹⁷ BOT 1915.8.31.

¹⁸ BOT 1915.8.31.

¹⁹ BOT 1915, 25.

²⁰ BOT 1915, 26.

²¹ BOT 1915, 23.

²² BOT 1915, 24.

²³ BOT 1930, 4.

In June 1917, the BOT published another report titled “Overseas Chinese in Southeast Asia and Their Financial Institutions” and proposed to establish the GOCB once again. In this report, the BOT added another function to the GOCB as a financial service provider for Japanese merchants and companies in Southeast Asia. During the period of the First World War, Japan advanced into Southeast Asian markets, and were heavily involved in trading, plantations, and the mining business. However, there was a lack of financial institutions to support their activities, and the GOCB was expected to play a role as a short or long term credit provider for Overseas Japanese business.

In March 1918, the BOT hosted the “Conference for Establishing the CSB” and invited government officials from the MOF, MOFA, and TGO. They discussed detailed business plans and the contents of the Memorandum and Articles of Association. The most important issue in this conference was regarding jurisdiction of the bank, and they finally decided that the bank should rely on Japanese law, so they set up the head office in Taipei.²⁴ The GOCB was finally implemented under the name of the CSB.

The BOT had already selected Lim Him-ting (林熊徵), a patriarch of the leading Taiwanese noble house Lim Clan of Pang-kio (板橋林家) as a suitable founder for the CSB. The BOT expected him to become a mediator between Japanese and Overseas Chinese. The committee to establish the CSB released the prospectus and started share subscriptions. A total of 100,000 shares were allotted to Japan (10%), Taiwan (40%), and China or Southeast Asia (50%).²⁵ This shareholding structure reflected the concept of the GOCB as a joint venture between Japanese and Chinese capitals in South China and Southeast Asia.

The CSB officially completed company registration in January 22, 1919, and held a founding shareholders meeting in January 29 in Taipei. At this meeting, 15 directors, 7 auditors, 25 counselors, and 3 advisors were elected. They came from Japan (12%), Taiwan (34%), South China, including Shanghai, Fuchou, Amoy, Canton, and Hong Kong (30%), and Southeast Asia, including Singapore, Manila, Rangoon, Semarang, Surabaya, and Solo (24%).²⁶ Lim Him-ting was appointed as president, Jyokichi Ikeda (池田常吉) was appointed as vice president, Sankuro Ogasawara (小笠原三九郎) and two more Japanese were appointed as senior managing director and managing directors. However, Lim Him-ting was the nominal executive, and four Japanese executives and many clerks who came from the BOT controlled managerial decisions and daily operations.

In March 1919, the CSB opened its head office in Taipei, then opened offices in Singapore, Semarang, Canton, Rangoon, Saigon, and Haiphong within a year. The CSB

²⁴ BOT 1930, 4.

²⁵ Chugai Shogyo Shinpo 1919.2.2.

²⁶ Taiwan Nichinichi Shinpo 1919.1.30.

continuously increased paid up capital and reached up to 7.5 million yen by 1921.

5. Establishment of the SWC

When the BOT promoted the CSB project, another joint venture project to establish the SWC was already in progress. In spite of the rapid trade volume increase with South China and Southeast Asia, only foreign warehouses and banks provided services to Japanese merchants, but these services were not flexible enough or useful to them. Therefore, small Japanese traders such as Nanyo Shokai, led by Kazue Tsutsumibayashi, and Arima Yoko (有馬洋行), led by Hikokichi Arima (有馬彦吉), lobbied for the TGO and BOT to establish Japanese warehouse businesses in Southeast Asia.²⁷ The TGO and BOT had already established Taiwan Warehouse & Co. (台灣倉庫) in 1916 in Taiwan, and continuously researched the feasibility of Japanese warehouse businesses in South China and Southeast Asia to expand Japanese economic presence in the region.

When the BOT finalized the CSB project, BOT Vice President Nakagawa, who led the project, conceived of an idea to establish a joint venture warehouse company with Overseas Chinese which would apply the same human and capital resources of the CSB. Taiwan's governor, Motojiro Akashi (明石元二郎), supported this idea, and the BOT started to organize the SWC project.²⁸ Lim Him-ting was selected again as the founder of the SWC, and the prospectus for the project insisted on a close relationship with the CSB:

The CSB was established with the cooperation of leading merchants and organizations in South China, Taiwan, and Southeast Asia, and was a significant case of economic cooperation between Japanese and Overseas Chinese. We believed that this was the right time and opportunity to realize this project and establish the SWC as soon as possible with support from leading businesses and social figures in the region who also supported the establishment of the CSB.²⁹

Obviously, this project was tied with the CSB under the same concept of economic cooperation and joint ventures between Japanese and Overseas Chinese capitals. Chapter 3 of the prospectus also mentioned the following:

This company is a joint venture between Japanese and Chinese. Chinese include the people who are Chinese nationals or Overseas Chinese in South China and Southeast

²⁷ SWC 1936, 87.

²⁸ SWC 1936, 87.

²⁹ SWC 1919, 3.

Asia. Japanese include organizations, traders, and businessmen who have strong relationships with Taiwan and Southeast Asia. Anyone who is a director or shareholder of the CSB has priority to enjoy the share allotments of the SWC.³⁰

The prospectus noted that the total capital was 5 million Japanese yen and the first paid up capital was 1.25 million Japanese yen. A total 50,000 share allotments were completed in November 1919. Japanese shareholders held 35.7% (17,850 shares) and Chinese (including Taiwanese, Mainland Chinese, and Overseas Chinese) shareholders held 64.3% (32,150 shares).³¹ Geographical shareholding allocation was as follows; 62% from Japan and Taiwan (30,950 shares, 44 shareholders), 22% from Dutch East India (11,000 shares, 27 shareholders), 9% from Singapore (4,550 shares, 31 shareholders), and 7% from Canton (3,500 shares, 28 shareholders).³² The largest shareholder was the BOT (2,450 shares, 4.9%), then Quek Chun-yong's holding company (2,000 shares, 4%), the CSB (1,000 shares, 2%), Mitsui & Co. (三井物産, 1,000 shares, 2%), and Yamashita Shipping (山下汽船, 1,000 shares, 2%).³³

The SWC held a founding shareholders meeting in Taipei in January 15, 1920. At the meeting, 9 directors, 3 auditors, 22 counselors, and 2 advisors were elected.³⁴ The 12 board members included 4 Japanese, 5 Taiwanese, 1 Chinese, and 2 Overseas Chinese. Counselors and advisors included 15 Japanese, 5 Taiwanese, 1 Chinese, and 3 Overseas Chinese. Moreover, 19 members were stakeholders of the CSB (including 7 directors, 5 auditors, 2 advisors, and 5 counselors), and 12 members came from the BOT. These figures clearly indicate that the SWC was affiliated with the BOT and CSB. Lim Hian-tong (林獻堂) and Gan Hun-lian (顏雲年) were appointed as president and vice president, respectively. Both of them were patriarchs of the Lim Clan of Bu-hong (霧峰林家) and the Gan Clan of Ke-lang (基隆顏家), the leading noble houses in northern and central Taiwan. Sayao Kawakata (河方鞆男, former Osaka branch general manager of Mitsubishi Warehouse Co. (三菱倉庫)) was appointed senior managing director in charge of managerial operations, and six more directors were appointed, included Lim Him-ting of the CSB, Etsuji Yanagi of the BOT, and Kazue Tsutsumibayasahi of Nanyo Shokai in Java

By December 1919, a month before the founding shareholders meeting, the SWC had already sent correspondents to Canton, Singapore, and Java to prepare for opening of their

³⁰ SWC 1919, 5.

³¹ SWC 1936, 12-16.

³² SWC 1936, 12-16.

³³ SWC 1936, 12-16.

³⁴ SWC 1936, 102-103.

business. They opened warehouses in Semarang in March 1920, Surabaya and Canton in April, and Singapore in May. Kawakata was in charge of the Taipei head office and Canton branch, Tsutsumibayasahi was in charge of Java and Singapore, and Yanagi was in charge of liaisons between the SWC and BOT. However, there was not enough managerial consensus among the three managing directors due to hasty preparations during the company's establishment. Moreover, Kawakata had a talent for running a warehouse business, but did not have any practical knowledge about overseas operations. In addition, Tsutsumibayasahi had to manage his own business, Nanyo Shokai, in Java, and Yanagi was a manager at the BOT's secretarial office and held a position at the SWC, which was a concurrent post.³⁵ These factors caused serious managerial problems soon after establishment of the company.

6. Limits and restructuring

However, both the CSB and SWC faced difficulties and had limitations during business development in the early stages. Because of anti-Japanese boycotts from the middle of 1919, business cooperation with Chinese merchants stagnated, and export trade from Japan was negatively influenced. Since 1920, Japan had been experiencing a serious economic depression. Moreover, the political situation in South China was extremely unstable due to struggles between warlords, and commodity prices in Southeast Asia had dropped with volatility. These negative economic and political factors seriously affected business for the CSB and SWC.

The CSB posted a 139,037 yen profit in fiscal 1919 and 366,386 yen profit in fiscal 1920, but there were some rumors that the BOT was hiding bad loans in their subsidiaries, such as the CSB. Sankuro Ogasawara, managing director of the CSB recounted the following story in his memoir:

I frequently received bad rumors from Taiwan that said we shoulder the bad loans from the BOT. At the time, the BOT was affected by an increase in non-performing loans due to the depression, and some insiders reported this to the MOF. Management expected that the MOF would inspect the account books sooner or later. They were embarrassed and tried to hide the non-performing loans from us to dodge responsibility.³⁶

Based on a special inspection in June 1921, the MOF ordered corrective measures to the CSB's operations, but there was no drastic change to their management. In addition,

³⁵ SWC 1936, 169.

³⁶ Ogasawara 1967, 169-170

financial results continued to be sluggish with 296,768 yen in profits in fiscal 1921 and 318,417 yen in profits in fiscal 1922.

In April 1922, the BOT announced that it was changing its business model from general banking to exchange banking, and that it would cease to supply development finance. In response to this, the MOF, BOJ, and BOT discussed changing the CSB's business model from general banking institutions for Overseas Chinese clients to development finance institutions for Japanese clients. The CSB started business restructuring in September 1924 and reduced 50% of their capital, disposing of more than 4 million yen in non-performing loans, and posting a 3.74 million yen final deficit in fiscal 1924.³⁷ However, it was not easy to establish a new business model in South China and Southeast Asia because of the negative macro-economic and political environment, in addition to there being not enough support from the BOT and the Japanese government.

The SWC was in a difficult situation as well. Because of hasty preparations during the establishment stage, the BOT and SWC's managing directors could not come to a consensus regarding its management. The SWC recruited staff with high salaries from Mitsubishi Warehouse Co., including Sayao Kawakata as senior managing director, but it also raised operating costs.³⁸ However, they were not aware that the local market in South China and Southeast Asia had posted a loss of 140,378 yen in fiscal 1920. In response to this, President Nakagawa of the BOT suggested that the SWC task Japanese national interests, and said its mission was to promote cooperation with Overseas Chinese as a key to the southward strategy, therefore, the SWC needed to change attitudes and operations.³⁹ Kawakata resigned as senior managing director and Yanagi from the BOT took over his position. Under the leadership of Yanagi and Tsutsumibayashi, the SWC restructured its operational and financial management, barely posting 5,311 yen in profit in fiscal 1921, and recording 55,784 yen in profit in fiscal 1922.

In May 1923, the SWC moved its operational headquarters to Singapore and expanded warehouses and ancillary services. The handling amount for the warehousing business was steadily increasing; input was 11,865,000 yen and output was 12,962,000 yen in fiscal 1921, but 33,611,000 yen and 34,881,000 yen in fiscal 1925. However, financial results were at a standstill, and they posted a loss of 4,941 yen in fiscal 1923, and profits of 5,560 yen in fiscal 1924 and 5,279 yen in fiscal 1925. Under these circumstances, Overseas Chinese directors and shareholders gradually began to lose interest in the SWC. In February 1926, Tsutsumibayashi reported to the directors of the BOT, "Since our establishment in 1920, the

³⁷ Hisasue 2015, 83.

³⁸ SWC 1936, 194.

³⁹ SWC 1936, 160-162.

SWC has not paid any dividends, and Chinese shareholders would like to release their shares. The share price of the company has dropped to 2 yen per share in the Taipei market, and the SWC has lost credibility in the Overseas Chinese business society. It is my deepest regret to say this, but they have already lost their confidence in the SWC.”⁴⁰

7. Structural problems of the CSB and SWC

In search of reasons why the CSB and SWC faced difficulties in their business development, we were able to find four major structural problems.

1) The fall of the BOT

The BOT was the de facto parent company of both the CSB and SWC. However, the BOT's business operations and financial position drastically deteriorated after 1920 because of a serious depression after the First World War. In April 1922, the BOT announced changes to its business model from a general banking institution to an exchange banking institution, however, their deterioration had been worsening day by day, especially after the Great Kanto Earthquake of 1923.

The BOT posted record profits of 3,100,325 yen in fiscal 1920, but it was followed by a downward trend in profits of 1,371,440 yen in fiscal 1924. In particular, the BOT posted a huge loss of 26,493,197 yen in the first half of fiscal 1925. The balance sheet also reflected the difficulties of their financial position. The loan-deposit ratio indicated extreme over-lending. This was caused by a rapid increase in bill discount operations, which recorded 227,337,996 yen in fiscal 1920 to 408,055,514 yen in fiscal 1925. The only way that the BOT could cover its shortage of funds was with borrowing. The total debt accounts balance drastically increased from 165,915,893 yen in fiscal 1920 to 460,486,148 yen in fiscal 1925.

Their financial position was strained by serious irregularities, such as the need to take tens of millions in coal loans to cover their fixed lending. Finally, the BOT temporally closed its doors in 1927. Due to the shortage of funds and deterioration caused by a wrong business strategy, the BOT began losing its capacity to support the CSB and SWC.

2) Dependence on subsidies from the TGO

The CSB and SWC over-depend on subsidies from the TGO. For example, the CSB received 75,000 yen in fiscal 1919, 66,000 yen in fiscal 1920, 100,000 yen each from fiscal 1921 to 1924, and 70,000 yen in fiscal 1925. It covered 22% of annual profits in fiscal 1919, 10% of profits in fiscal 1920, 17% of profits in fiscal 1921, 16% of profits in fiscal 1922, 16% of profits in fiscal 1923, 3% of losses in fiscal 1924, and 39% of profits in fiscal 1925. Until the end of fiscal 1935, the TGO subsidized a total of 1.31 million yen to the CSB.

The SWC also received 50,000 yen each from fiscal 1920 to 1924, and 12,500 yen in

⁴⁰ SWC 1936, 192.

fiscal 1925. This covered 26% of annual losses in fiscal 1920, 112% of losses in fiscal 1921, 90% of profits in fiscal 1922, 91% of losses in fiscal 1923, 113% of losses in fiscal 1924, and 173% of losses in fiscal 1925. Due to these subsidies, the SWC could ease their losses or even make a slight profit. The TGO subsidized a total of 420,000 yen to the SWC until the end of fiscal 1930. Relatively speaking, the profits and losses of both the CSB and SWC were heavily dependent on the subsidies they received from the TGO.

3) Abnormal dividends policy

As with the joint venture with Overseas Chinese capitals, the CSB and SWC believed that they had to respect Chinese commercial customs, especially in their dividends policy. Traditionally, Chinese merchants invested their idle capitals in joint stock businesses (合股). However, such investments have another aspect as fixed deposits and business proprietors have to pay certain percentages of dividends as de facto annual interest (官利) even if they make a profit or have losses. When the CSB and SWC invited Chinese investors for share subscriptions, both companies did not officially promise fixed dividends, but suggested it. Therefore, even though their corporate format was like a western style joint stock company, the CSB and SWC had to pay dividends under the abnormal policy to defend their reputation and credit.

For example, the CSB paid 174,000 yen in dividends in fiscal 1919, 520,000 yen in fiscal 1920, 450,000 yen from fiscal 1921 to 1923, and 188,000 yen in fiscal 1924. It was equivalent to 78% of annual profits in fiscal 1919, 81% in fiscal 1920, 77% in fiscal 1921, 71% in fiscal 1922, 70% in fiscal 1923, and 83% in the first half year of fiscal 1924. The CSB recorded huge losses in the second half of fiscal 1924 and was forced to pass its dividends, but started to pay again with 150,000 yen in fiscal 1925, which was equivalent to 83% of its annual profits. After a special inspection by the MOF in June 1921, the CSB received corrective instructions to reduce its dividend rate. Sankuro Ogasawara, senior managing director of the CSB, insisted, "Once we cut dividends, it will distract from our credit, and Chinese stakeholders might panic. As a banking institution, it is a suicidal act."⁴¹ However, the CSB compromised with the MOF and kept their dividend policy, instead of having Ogasawara resign.

The SWC was in a different situation because they made huge losses in the first fiscal year and could not implement dividends. Executive Director Kazue Tsutsumibayashi mentioned in January 1921 that, "This Company is a joint venture with Japanese and Chinese to promote international economic cooperation. However, even though we are in charge of management, we recorded huge net losses within a year and could not implement

⁴¹ Ogasawara 1967, 248.

dividends. This is a terrible situation for Chinese investors.”⁴² He worried that the SWC and Japanese would lose face, as well as credit, among Chinese business society in South China and Southeast Asia, and that it would cause difficulties for economic cooperation with Chinese merchants. However, financial results after fiscal 1920 were also unstable, and the SWC could not implement dividends.

Because of the excess recognition regarding Chinese commercial customs, this abnormal dividends policy took away their managerial and financial flexibility and hurt their relationship with Chinese stakeholders.

4) Misunderstandings about Overseas Chinese

The driving cause of the CSB and SWC was to promote economic cooperation with Overseas Chinese capitals for Japanese economic expansion toward the south. However, the BOT, CSB, and SWC fatally misunderstood Overseas Chinese. Overseas Chinese who have origins in South China are very loyal to clan kinship and have provincial relationships inside their circles. In other words, they do not easily trust or cooperate with others, whether their counterpart is Chinese or not.

The BOT originally recognized and were cautious about this behavior. Their reports claimed, “An adverse effect of Chinese society is that they have strong emotions to kinship and regionalism, and do not cooperate with others. This is a point worth noting when establishing joint venture banks.”⁴³ Therefore, establishing the CSB and SWC was an experimental project. Their report also said, “We will try to establish a company which encourages Overseas Chinese to change their bad habits as they struggle with each other, and organize a new movement to unite them.”⁴⁴ In line with this concept, the CSB and SWC invited Overseas Chinese stakeholders from various places in South China and Southeast Asia. However, it could not create any actual business opportunities or synergistic effects among them.

Moreover, many Overseas Chinese did not agree with the “same script, same race” (同文同種) ideology of the Japanese due to anti-Japanese sentiments, and only opportunists or semi-forced collaborators among them cooperated with the CSB and SWC. The projects of the CSB and SWC were highly ideal for the Japanese, but were too optimistic or unrealistic for Overseas Chinese.

8. Changing the relationship with the BOT

In spite of the founding cause of the CSB and SWC, both companies gradually lost their

⁴² SWC 1936, 168.

⁴³ BOT 1915.4.23.

⁴⁴ BOT 1915, 21.

purpose as a joint venture with Overseas Chinese. The CSB changed their business model in 1924 and officially ceased development of business operations with Overseas Chinese. The SWC still sought business relationships with Overseas Chinese on a customer basis, but could not cooperate with them on a project basis.

On the other hand, the relationships among the BOT, CSB, and SWC gradually deteriorated, especially after the BOT temporally closed its door in 1927. The BOT resumed its business operations under government intervention, but no longer had the capacity to support overseas business development in the south under the business restructuring. Therefore, the CSB and SWC set off on their own paths under the leadership of a new top management.

The SWC changed its top management in 1926. Jisaburo Handa (半田治三郎), a former general manager at the BOT's Batavia branch, assumed the role of senior managing director. Because of his close contact with the SWC, he understood the problems that the company was facing and reformed its management where possible. For example, the SWC obtained the authorization and guarantee to re-discount their warehouse receipts by the Javasche Bank, the de facto central bank in Dutch East India, in 1927. The SWC also built state of the art mega warehouses at the quay front of Surabaya port in 1928, even though they faced heavy opposition by Dutch capitals.⁴⁵ However, the economic and political difficulties have not changed since the early 1920s and it has affected the financial results of the SWC, which only posted 3,410 yen in profits in fiscal 1926, 6,324 yen in profits in fiscal 1927, and 2,283 yen in profits in fiscal 1928, with a recorded 19,287 yen in losses in fiscal 1929.

Therefore, Handa decided to introduce outside capital for the coming business restructuring. In 1930, Hiroichiro Ishihara (石原廣一郎), a successful entrepreneur and mining tycoon in Malaya, had interest in the ownership of the SWC. He had been a student at the Kyoto Law School (京都法政学校) and received tutelage by President Nakagawa of the BOT when Nakagawa was a chancellor of the school. He was an enthusiastic believer in Japan's southward strategy and dedicated himself to developing iron ore mines in Malaya, which received strong support from Nakagawa and the BOT.⁴⁶ He also started to expand his shipping business to Java in the late 1920s, and was therefore offered a buyout of the SWC.⁴⁷ Handa and Ishihara agreed to a plan for a buyout and restructuring in late 1929, but the BOT opposed it because of the matter of a loan recovery from the SWC. Finally, the TGO mediated on the issue, and the BOT accepted the offer from Ishihara in August 1930. After capital decrease and increase operations, Ishihara owned 53.46% of shares after the BOT

⁴⁵ SWC 1928, 12.

⁴⁶ Ishihara 1970, 38-40.

⁴⁷ Ishihara 1970, 105-107.

sold all shares in April 1931. After this transaction, Lim Hian-tong remained in his position as president, but resigned in 1935, and the SWC became a Japanese company both in name and reality. However, their business was seriously affected by the rise of political and economic conflicts between Japan and the Netherlands in the late 1930s. After the breakout of the Asia-Pacific War (太平洋戦争) in 1941, the SWC continued their business operations in the Japanese-occupied East Indies and other South East Asian territories, but they lost all business interests after the end of the war in 1945.

The CSB could not set a clear direction for development after their business restructuring in 1924, and faced liquidity problems soon after the BOT temporarily closed its doors in 1927. However, the TGO realized that a temporary closure of the CSB would create a huge negative impact on Overseas Japanese businesses and damage their credibility in Southeast Asia, in addition to causing unrest among Taiwanese stakeholders. Therefore, under the instructions of the TGO, the CSB implemented an emergency restructuring plan including a 50% capital decrease and 3 million yen emergency loan from the BOJ.⁴⁸ Due to this drastic restructuring plan, balance sheets and financial results became stable since the second half of 1929. However, the CSB had already lost its significance to the GOCB, since only second-class Japanese trading houses or businessmen used its financial services. Benzaburo Arita (有田勉三郎), who controlled the CSB as vice president starting in 1928, said:

It is very rare to see Chinese or Indian customers in our banks because our service is mainly aimed at providing for Japanese customers. However, major Japanese traders and companies use the YSB and BOT, and we only get second-class traders or businessmen as customers.⁴⁹

On the other hand, the drastic business restructuring by the BOT and CSB caused a huge negative impact on Japanese businesses in Southeast Asia. In particular, rubber and hemp plantations in Malaya, Sumatra, and the Philippines had already received a devastating blow due to a decline in commodity prices, but could not receive financial support from the BOT and CSB. Therefore, the TGO implemented a financial rescue scheme in 1929. Under this scheme, the CSB finances totaled 3 million yen for Japanese planters, and the TGO subsidized 58% in interest payments, then the CSB received a total of 825,215 yen from the TGO from 1929 to 1934.⁵⁰ However, because of the global economic crisis that began in

⁴⁸ Hisasue 2015, 84.

⁴⁹ Taiwan Nichinichi Shinpo 1928.8.17.

⁵⁰ BOT 1936, 42.

1929, finances to Japanese planters turned to non-performing loans, and the treasury bureau of the TGO put pressure on the CSB to do another business restructuring. Makoto Okada (岡田信), treasury bureau chief who had experience inspecting the CSB in 1921 as a chief inspector from the MOF, doubted the *raison d'être* of the CSB as a Japanese financial institution in Southeast Asia, and criticized Arita's leadership.⁵¹ Finally, the BOT, which lost control over the CSB, even though they were the largest shareholder, intervened and created a restructuring scheme in 1936.⁵² However, Arita resisted and bought time against the BOT.

While in the era of the Japanese-Sino War (日中戦争) and Asia-Pacific War, the CSB reemphasized their *raison d'être* as a Japanese financial institution in the south in line with Japanese militaristic advances as part of national policy. However, the war deteriorated the economic situation and broke down the normal business environment, especially in the colonies of the Western powers. The CSB extended its branch network in Japanese-occupied areas in South China and Southeast Asia, but there were no profitable business opportunities to be found from this expansion. The only profit source was in banking businesses on the island of Taiwan, which enjoyed a relatively stable economic situation apart from being part of the war zone. After 1944, the BOT finally carried out a business restructuring of the CSB due to the deterioration of the war situation in Southeast Asia. They dismissed Arita from his position as vice president, then increased capital, acquired majority shares, and sent directors to control the CSB.⁵³ The CSB closed its overseas branches and turned its business model to focus on local banks in Taiwan. In August 1945, the CSB was confiscated by the Chinese government after the end of the Asia-Pacific War, and closed its 26 year history as a Japanese bank.

9. Conclusion

The CSB and SWC were established as affiliate companies of the BOT which aimed to facilitate market entry into the south by Japanese capitals through economic cooperation with Overseas Chinese. It was planned in the middle of the 1910s when the BOT faced difficulties developing businesses in Mainland China and turned their target toward Southeast Asia. At the same time, Japan enjoyed a booming economy during the First World War, and Japanese capitals had begun massively seeking opportunities in overseas markets, especially in the south under the socio-political/economic trends of the Southward Movement. In line with this background, the BOT established the CSB and SWC in 1919

⁵¹ BOT 1933.

⁵² BOT 1936, 57-64

⁵³ Hisasue 2015, 100.

and 1920, respectively.

However, both companies faced managerial difficulties due to weak corporate governance, lack of sufficient support from the BOT, a depression in South China and Southeast Asia, and a nominal “partnership” with Overseas Chinese. They could not create any actual business opportunities or synergistic effects with Overseas Chinese, and gradually lost their original goal as a joint venture. On the other hand, the BOT’s rapid expansionism failed in the early 1920s under the serious depression following the First World War, and they temporarily closed their doors in 1927. The affiliation among the BOT, CSB, and SWC gradually broke down and they separated in the late 1920s.

Both the CSB and SWC targeted wider and combined markets between South China to Southeast Asia, and they introduced many sources of stakeholders as directors and shareholders from Japan, Taiwan, South China, and Southeast Asia. Therefore, the projects had a significant meaning as an international joint venture, and had a goal to create a new age of commercial activity in Asia. However, the macro-economic environment had been changing since 1920 when both companies were established, and they faced the realities and limitations of business development. In other words, both the CSB and SWC were “belated” products of the age of the Southward Movement in the 1910s.

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