

## PHILIPPINE "COLONIAL BANKING" DURING THE AMERICAN PERIOD\*

Yoshiko Nagano\*\*

This paper attempts to show the general features of the banking sector in the Philippines during the American colonial period. It discusses how foreign and local banking institutions operated in the Philippines during that period, specifically how they related to the various production sectors of the economy. The paper shows that, unlike other colonies in Asia, colonizers', particularly American, interest in the banking sector of the Philippines was minor.

### 1. Introduction: An Approach to Colonial Banking History

This paper attempts to depict the general features of the structure of the banking sector in the Philippines during the American period. First, it illustrates how the banking institutions, either private or governmental (semi-governmental), existed in the Philippine economy during the American period. Second, it discusses how their activities were carried out during the American colonial period. Third, it shows what kind of relations the banking sector had with various production sectors at that time. If we define the Philippine colonial economy as an "export economy for primary commodities" or a "mono-culture typed economy," it is important to analyze the impact of such characteristics of the Philippine economy on the banking sector or vice versa.

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\*\* Professor of International Relations, Faculty of Foreign Studies, Kanagawa University, Yokohama. Address: 3/27/1 Rokkakubashi, Kanagawa-ku, Yokohama 221-8686, Japan. E-mail: ynagano@ma.kcom.ne.jp.

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When we review major studies on colonial banking history in East and Southeast Asia, it appears that they usually define major western banks as "colonial banks" which contributed largely in the formation and development of colonial economies.

Takeshi Hamashita (1990) defines British "colonial banks" as those banks which were established under British capital in British colonies such as Canada, South America, Australia, and India. Their distinctive feature lied in their financial function to link directly between their head offices in Britain and branches in the colonies. He gives as example the case of British banks such as Oriental Banking Corporation and Chartered Bank of India, Australia and China, both of which had head offices in London and kept expanding their network of branches in India, Ceylon, China, and Southeast Asia.

Kanji Ishii (1979) discusses in detail the operations of British banks in Asia. He does not explicitly define the term "colonial banks"; however, since he includes Hongkong and Shanghai Banking Corporation among colonial banks which kept its head office in Hongkong, this means that Ishii includes in the category of colonial banks those that had head offices either in London or in Asia.

Yasuo Gonjo (1985), in his study on *La Banque de L'Indochine*, discusses extensively its activities in the late 19th century to the early 20th century. He mentions that in France, "colonial banks" or "banques coloniales" was the term used for the prerogative banks exercising unique authority of issuing bank notes. The activities of these banks were limited within the colonies, however. During the early 1870s, colonial banks were established in French African colonies under the 1851 Banking Act. In these colonies, France controlled the territory under its prerogatives and it was possible to place their banking systems under the strict control of French colonial governments. In Indochina, on the other hand, it was necessary to create a new colonial bank which not only served for the French territorial expansion policy in the future, but also to compete with British banks in Asia. *La Banque de L'Indochine* was established in this direction as a different type of French colonial bank in the 1870s.

Shoichi Namikata (1985) studies the activities of Japanese banks in Taiwan, Korea and Manchuria, in contrast with those of Western banks in Asia from the late 19th to the early 20th century. In his definition, "colonial (or overseas) banks" were the colonial branches of Western or Japanese banks which had head offices either in East Asia or in the West. Those major banks were the Chartered Bank of India, Australia and China, the Hongkong and Shanghai Banking Corporation, La Banque de L'Indochine, Deutsch-Asiatische Bank, La Banque Russo-Chinoise, and the International Banking Corporation, among others. Namikata classifies most of these banks into three types: (1) Hongkong and Shanghai Banking Corporation, that was established by Hongkong-based British prominent merchants; (2) La Banque de L'Indochine and Deutsch-Asiatische Bank in which major banks or agency houses based in Western countries mainly invested; and (3) La Banque Russo-Chinoise, which was established under the joint investments by Russian banking capital (most of which was actually French in origin) and the Chinese government.

In the study of colonial banking history, it is significant to define the nature of those banks as "colonial banks", which were established by the investors from the countries that colonized those areas, because they played important roles in expanding their own economic interests in colonial economies. However, in the study of Philippine banking history during the colonial periods, the term "colonial bank" was not used that much. Such term did not appear in the laws and regulations enacted that time, unlike in the case of France in the late 19th century. This peculiar phenomenon should be understood in the historical background that foreign banking institutions were not necessarily operated actively to protect their own economic interests in the Philippines. During the American period the colonial government established banking institutions to expand export agriculture under Filipino land ownership, rather than to protect American economic interests per se. This was a different experience from that of the colonies (or dependencies) under Britain, France, and Japan. The analysis of this distinctive feature of banking activities will serve to illustrate not only the characteristics of the American colonial policy toward the Philippines, but also the nature of politico-economic structure of the Philippines which, as a result, forced the United States to choose such policy.

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Colonial economies in Asia, Latin America or Africa have been defined as "export economies" or "mono-culture typed economies." While their inner structures could be understood as "dual economies" or "plural economies", each colonial economy has had a variety of experiences depending on the nature of its pre-colonial structure or its relation with the colonial master. In fact, whether or not they were successful in modernization and industrialization largely depended on the characteristics of their economies at pre-independence which have served as colonial legacy long after independence. The primary purpose of this paper is to discuss how the characteristics of Philippine colonial economy, as a whole, reflected the nature of the banking sector during the American period. At the same time, it is also important to show how the banking sector influenced the formation of the producing sectors during the colonial period.

### **2. Administration for Modern Banking Institutions**

How did the colonial government regulate the operations of banks during the American period? In November 1900, the Philippine Commission enacted Act No. 52 which provided for the supervision of bank operations in the Philippines. This act had the following regulations: (1) the Insular Treasurer shall supervise banking operations and submit every six months its report to the US Comptroller of the Currency; and (2) each bank or each branch of a foreign bank shall submit its report of operations to the Insular Treasurer in January, April, July, and October, following the regulations of the US National Bank Act (United States War Department, 1901).

In 1917, the Administrative Code of 1917 (Act No. 2711) was enacted. Under this Act, the Bureau of Treasury was created to control currency and to supervise banking operations. In February 1929, Act No. 3519 was enacted and the system to supervise banking institutions was reorganized. Through this Act, the Bureau of Banking was created under the Department of Treasury which assumed the former task of the Insular Treasury. The Banking Commissioner had authority to issue several regulations regarding banking operations and was obliged to examine them at least once a year. Even during the Commonwealth period, the Bureau of Banking continued to func-

tion in the same way (Philippine Islands, War Department, 1919; Philippines Islands, Bureau of Banking, 1930; and Central Bank of the Philippines, 1974).

Since its creation, the Bureau of Banking published annual reports that contained various data on the regulations of the banking industry, as well as the development of the banking sector from 1929 to 1940. On the other hand, the same publications were not available for the period before 1928. The Insular Treasurer submitted annual reports but due to the variety of items to be dealt with, data on the banking sector was not systematically reported. This limitation of data available from government publications being supplemented by other contemporary reports, we will discuss the changing trend of banking operations in general as well as the rise and fall of banking institutions during the American period.

### 3. Changing Trend of Banking Operations

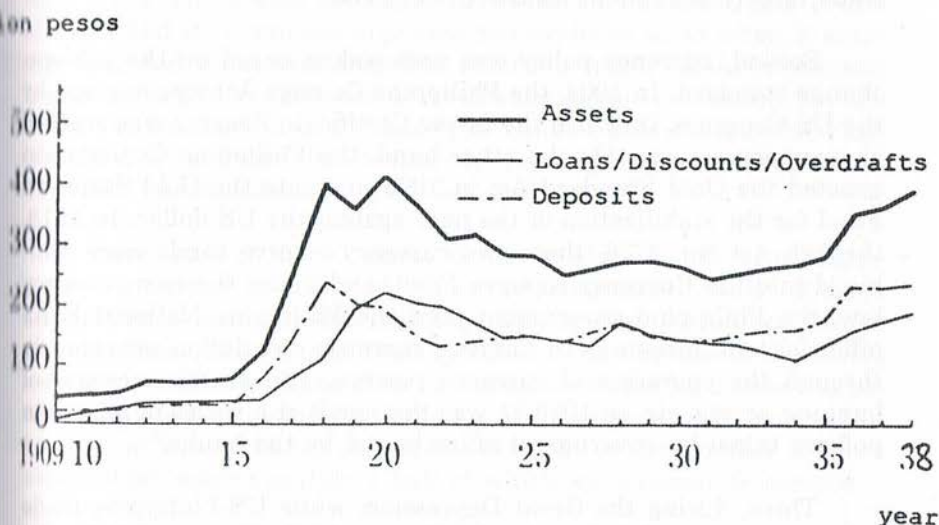
Chart 1 shows the changing amount of assets, loans/discounts/overdrafts, and deposits in 1909-1938, taken from the Annual Report of the Bank Commissioner of the Philippine Islands in 1938. It should be noted that the method of compilation of the statistics was different between the periods before and after 1929. After 1929, the banking institutions included in Chart 1 were composed of savings and mortgage banks, commercial banks, trust companies, and branches of foreign banks. However, before 1928, together with these four types of banking institutions, building and loan associations were included among banking institutions (during the 1910s, insurance companies were also possibly added). At present, the author only has data of the total assets of ten building and loan associations in the 1930s, the amount of which was approximately 10 percent of the combined assets of savings and mortgage banks, commercial banks, trust companies, and branches of foreign banks throughout the 1930s.<sup>1</sup>

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<sup>1</sup> For details on building and loan associations, see Doeppers (1983).

## PHILIPPINE COLONIAL BANKING

**Chart 1 - Aggregate Amount of Assets, Loans/Discounts/  
Overdrafts and Deposits in Banks in the  
Philippines, 1909-1938**



Source: Philippine Islands, Bureau of Banking (1939), *Annual Report of the Bank Commissioner of the Philippine Islands, 1938*. Manila: Bureau of Printing.

Considering the nature of the statistics in Chart 1, we may see the following trends. Each amount of the three items (assets, loans/discussions/overdrafts, and deposits) did not change before 1915. After 1916, all three items increased drastically and reached their peak in 1918-1920. Then in 1921-1922 they declined sharply, stabilized only after 1925-1926, and increased later in the late 1930s. Why did they fluctuate this way?

First, it is important to understand the above statistics in relation to the development of foreign trade. It was after the enactment of the Payne-Aldrich Tariff Act of 1909 and the Underwood-Simmons Tariff Act of 1913 that special trade relations between the Philippines

and the United States was established. Under the preferential tariffs, the Philippines increased its exports to the United States tremendously, while massive US commodities were imported. The rapid increase of banking assets, deposits, and loans/discounts/overdrafts shown in Chart 1 was a reflection of the development of Philippine foreign trade largely dependent on the US market.

Second, currency policy was undertaken based on the gold-exchange standard. In 1903, the Philippine Coinage Act was enacted by the US Congress, in which the Silver Certificate Reserve was created as currency reserve. On the other hand, the Philippine Commission enacted the Gold Standard Act in 1903 to create the Gold Standard Fund for the stabilization of the peso against the US dollar. In 1918, through Act No. 2776, these two currency reserve funds were combined into the Currency Reserve Fund, and under the new currency law, the Philippine government (and the Philippine National Bank officials) took measures to increase currency circulation enormously through the operation of currency reserve. The drastic increase of banking assets, etc. in 1918-21 was the result of a series of mistaken policies taken by government officials and by the banks.<sup>2</sup>

Third, during the Great Depression, while US-Philippine trade relations were modified under the Tydings-McDuffie Act of 1934, the currency system was transformed. Following the suspension of the gold standard system and the devaluation of the US dollar in 1933-34, the Philippine government devaluated the peso and introduced the dollar exchange standard system in 1935. The effects of changing the currency system on the banking sector remained to be studied; however, the gradual increase of banking assets might be understood in the light of the change of currency system at that time.

Needless to say, the time series data in Chart 1 shows only the general trend of banking activities. In order to understand it more precisely, it is important to examine when and how the banking institutions were established during the American period. In the following section, we will trace the rise and fall of banking institutions from the end of the Spanish period.

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<sup>2</sup> Important studies on the Philippine currency policy during the American period can be found in Kemmerer (1919) and Luthringer (1934).

#### 4. Establishing Banking Institutions

Table 1 lines up the names of 33 banks established in the Philippines from the late 19th century to the end of the American period, showing their years of establishment, the nationalities of capital, and their types. There were two banks that were not listed in Table 1. One of them had its operation approved but evidence as to when it actually operated is not available. The other one had a record of re-opening in the 1920s, but the year of its establishment is unknown.<sup>3</sup> With these two banks, the total number of banks established in the Philippines from the late 19th century to the early 1940s was counted at 35, 18 of which continued operation until 1940.<sup>4</sup>

The nature of the 33 banks should be classified by type. There were 4 government-affiliated banks, 13 commercial banks, 2 trust companies, 2 savings and mortgage banks, and 12 foreign banks. Among them, those banks that operated until the end of the 1930s were 3 government-affiliated banks, 5 commercial banks, 2 trust companies, 2 savings and mortgage banks, and 6 foreign banks. Commercial banks and foreign banks shared the majority in the number of those established, approximately a half of which were closed or merged.

It is noteworthy that out of the five banks established at the end of Spanish colonial period (two of them were British banks), four served as major banks and continued their operations throughout the American period.

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<sup>3</sup> Mauro Prieto established a short-lived one with government approval in 1913 under Act No. 2215 (See Espiritu and Magno-Mijares, 1957). A record remains that Central Luzon Agricultural Students' Bank was reopened in 1925. However, its year of establishment and business activity are unknown (See *Annual Report of the Governor-General of the Philippine Islands, 1925*, p.107).

<sup>4</sup> Rodriguez Bank, though it was not a modern bank, but a small lending institution, was established in 1830, but was dissolved later due to stiff competition (See Regidor and Mason, 1950). Since the mid-19th century, the Oriental Banking Corporation, which first established a branch in China as a British bank, assigned its agent in Manila for foreign exchange and loan business, but withdrew from its business in 1884 (See King, 1988).



Table 1 - Process of the Establishment of Banks in the Philippines, 1851-1940

	Year of establishment	Nationality	Type*	Other remarks (the number indicates the number of the bank in the table)
<b>The End of Spanish Period</b>				
[1]	1851	Spanish*** (in Phil.)	C	
		British	F	
[2]	1873			
[3]	1875	British (in Hongkong)	F	
[4]	1882	Spanish*** (in Phil.)	S	
[5]	1883	Spanish	F	closed in 1887
<b>First Phase of American Period</b>				
[6]	1901	American	C	locally incorporated, closed in 1905
[7]	1902	American	F	closed in 1930, merged in [26]

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Table 1 (continued)

	Year of establishment	Nationality	Type*	Other remarks (the number indicates the number of the bank in the table)
[8] Guaranty Trust Co. (Manila branch)	1902	American	F	closed in 1904, merged in [7]
[9] Wai Hung Bank	1902	Chinese (in Phil.)	C	closed in 1905
[10] Abreu, Newberry and Reyes Bank	1902	Filipino	C	closed in 1902
[11] Bank of Pangasinan	(1902, 04, 05)**	Filipino	C	closed in 1905, reopened in 1917, closed again in 1919
[12] Bank of Zamboanga	(1902, 04, 05)**	Filipino	C	closed in 1908-09
[13] Postal Savings Bank	1906	Filipino	G	
[14] S. Mikasa Bank	1906	Japanese (in Phil.)	C	ordered to be closed in 1096
[15] Agricultural Bank of the Philippine Islands	1908	Filipino	G	merged in [16] in 1916
<b>Second Phase of American Period</b>				
[16] Philippine National Bank	1916	Filipino	G	
[17] Philippine Trust Co.	1916	Filipino***	T	

Table 1 (continued)

	Year of establishment	Nationality	Type*	Other remarks (the number indicates the number of the bank in the table)
[18] Yokohama Specie Bank (Manila branch)	1918	Japanese	F	
[19] Asia Banking Corporation (Manila branch)	1919	American	F	closed in 1924, merged in [7]
[20] American Foreign Banking Corporation (Manila branch)	1920	American	F	closed in 1920, merged in [22]
[21] China Banking Corporation	1920	Chinese (in Phil.)	C	
[22] Chinese-American Bank of Commerce of Peking (Manila branch)	1920	Chinese (in US)	F	closed in 1924, merged in [7]
[23] Cabanatuan Bank	1923	Filipino	C	short-lived
[24] Mercantile Bank of China	1924	Chinese (in Phil.)	C	ordered to be closed in 1931
[25] Peoples Bank and Trust Co.	1926	American	T	locally incorporated
[26] National City Bank of New York (Manila branch)	1930	American	F	
<b>Third Phase of American Period</b>				
[27] Savings Bank of the Commonwealth	1937	Filipino	C	became the Bank of Commonwealth in 1939

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Other remarks (the number indicates the number of the bank in the table)

Year of establishment

Type\*

Nationality

[28] Nederlandsch Indische Handelsbank, N.V. (Manila branch)	1937	F	Dutch (in Netherland East Indies)	
[29] Philippine Bank of Commerce	1938	C	Filipino	
[30] Bank of Taiwan (Manila branch)	1938	F	Japanese in Taiwan	
[31] Philippine Bank of Communications	1939	C	China	locally incorporated by the Chinese Bank of Communications
[32] Agricultural and Industrial Bank	1939	G	Filipino	
[33] Banco Hipotecario de Filipinas	1940	S	Spanish & Filipino (in Phil.)	Andres Soriano y Roxas was the chairman

Sources: H.P. Vibal (1960), "Philippine Banking History," *Banking, Finance and Investments Annual & Directory, 1959*, Manila, 52-53; Mary Grace A. Tirona (1987 & 1988), "Financial Entrepreneurship and Monopoly Capital," *Journal of History*, 32 & 33: 34-64.

Philippine Islands, Bureau of Banking (1930), *Annual Reports of the Bank Commissioner of the Philippine Islands*. Manila: Bureau of Printing.

Note \* G: Government-affiliated Bank; C: Commercial Bank; T: Trust Company; S: Savings & Mortgage Bank; F: Foreign Bank

\*\* Year of establishment varies in different sources.

\*\*\* Major stockholder of the bank around 1940 was the Archbishop of Manila. See Maria Teresa Colayco (1984), *A Tradition of Leadership: Bank of the Philippine Islands*. Manila: Bank of the Philippine Islands, pp. 116-117.

Ten (10) banks were established one after another in 1901-1908 but nine of them disappeared sooner or later through shut downs or mergers. These banks were American, Filipino, Chinese, or Japanese with relatively smaller capital under poor management.

If we understand the period from 1901 to 1908 as the first phase of establishing banks during the American period, the period from the late 1910s to the end of the 1920s might be considered as its second phase. During this latter period, 11 banks were newly established and five of them were shut down later. However, the remaining six banks maintained their position as major banks throughout the American period, together with the four banks established in the Spanish period. The period from the late 1910s to the end of the 1920s was the most important time for the establishment of banks during the American period, as this was when the Philippine economy became dependent on the US.

The late 1930s might be understood as the third phase in terms of the establishment of banks. During this period, five private and smaller banks were opened by Filipinos, Manila-based Spaniards, and Chinese, together with one government-affiliated bank. As a new phenomenon, foreign banks in Taiwan under Japan and Netherlands East Indies also opened their branches in Manila. This was related to the rising importance of Japan in Philippine foreign trade in the late 1930s.

### 5. Business Activities of Major Banks in 1940

Table 2 shows the business activities of 16 banks in 1940, based on the data from the *Annual Report of the Bank Commissioner of the Philippine Island in 1940*. As shown in Table 1, 18 banks operated in 1940; however, two government-affiliated banks—the Postal Savings Bank and the Agricultural and Industrial Bank—were excluded from Table 2. Postal Savings Bank, established in 1906, had not been supervised under the Bureau of Banking since 1930, while the Agricultural and Industrial Bank was newly opened in 1939 and data on its activities in 1940 was not available from the above annual report.

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Table 2 - Number of Branches and Several Items of  
Balance Sheet of Banks in the Philippines  
as of June 30, 1940

Name of Bank	Total num- ber of head office and branches	Assets		Loan & Discount		Overdraft		Paid-up Capital		Deposit (commercial)	
		1000 pesos	%	1000 pesos	%	1000 pesos	%	1000 pesos	%	1000 pesos	%
<i>A. Government-Affiliated Bank</i>											
1. Philippine National Bank	[1]	144,144	37.2	72,479	59.3	10,918	11.7	10,000	35.2	35,386	21.5
<i>B. Commercial Banks and Trust Companies</i>											
2. Bank of the Philippine Islands	4	38,442	9.9	7,177	5.9	16,733	17.9	6,750	23.7	24,187	14.7
3. Philippine Trust Company	[2]	11,176	2.9	4,821	3.9	2,371	2.5	1,000	3.5	9,338	5.7
4. China Banking Corporation	[3]	33,480	8.6	4,778	3.9	2,826	3.0	5,713	20.0	14,459	8.8
5. Peoples Bank and Trust Company	5	11,316	2.9	2,513	2.1	3,021	3.2	1,000	3.5	9,572	5.8
6. Philippine Bank of Commerce	1	3,637	0.9	1,002	0.8	628	0.7	612	2.2	2,705	1.6
7. Philippine Bank of Communications	1	8,076	2.1	560	0.5	151	0.2	2,000	7.0	4,996	3.0

Table 2 (continued)

Name of Bank	Total number of office and branches	Assets		Loan & Discount		Overdraft		Paid-up Capital		Deposit (commercial)		
		1000 pesos	%	1000 pesos	%	1000 pesos	%	1000 pesos	%	1000 pesos	%	
8. Bank of the Commonwealth	1	904	0.2	277	0.2	436	0.5	500	1.8	374	0.2	
<i>C. Savings &amp; Mortgage Banks</i>												
9. Monte de Piedad and Savings Bank	1	10,764	2.8	5,586	4.6					8,899	5.4	
10. Banco Hipotecario de Filipinas	1	873	0.2	670	0.5			853	3.0	16	0.0	
<i>D. Foreign Banks</i>												
11. Chartered Bank of India, Australia and China	3	23,292	6.0	695	0.6	10,977	11.7			12,032	7.3	
12. Hongkong and Shanghai Banking Corporation	2	47,962	9.4	4,200	3.4	35,615	38.0	[4]		13,724	8.3	
13. National City Bank of New York	1	36,509	12.4	11,083	9.1	5,932	6.3			24,663	15.0	

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Table 2 (continued)

Name of Bank	Total number of head office and branches	Assets		Loan & Discount		Overdraft		Paid-up Capital		Deposit (commercial)	
		1000 pesos	%	1000 pesos	%	1000 pesos	%	1000 pesos	%	1000 pesos	%
14. Yokohama Specie Bank	1	10,250	2.6	3,732	3.1	3,761	4.0	1000	1000	2,915	1.8
15. Nederlandsch Indische Handelsbank, N.V.	1	4,780	1.2	1,740	1.4	189	0.2	[5]	[5]	970	0.6
16. Bank of Taiwan	1	1,639	0.4	945	0.8	60	0.1	[5]	[5]	294	0.2
Total	90	387,214	100.0	122,258	100.0	93,618	100.0	28,428	100.0	164,530	100.0

Source: Philippine Islands, Bureau of Banking, *Annual Report of the Bank Commissioner of the Philippines.*

Notes

[1] Including 47 agencies and one foreign branch.

[2] Including 4 agencies.

[3] Including 2 foreign branches.

[4] Capital account amounted one million.

[5] Capital assigned amounted a half million pesos.



Examining the number of head offices and branches, the Philippine National Bank (PNB) was the most prominent bank in 1940. It had a head office in Manila and 58 branches, including local agencies and a foreign branch in New York. It was the biggest bank in the Philippines in terms of the size of its assets, amount of loans and discounts, paid-up capital, and deposit (private or commercial).

*Domestic banks* (established locally either by Filipino, Spanish or other foreign capital). There were major commercial banks such as the Bank of the Philippine Islands and the China Banking Corporation, while as trust companies, the Philippine Trust Company and the Peoples Bank and Trust Company were important. The Monte de Piedad and Savings Bank was the sole savings and mortgage bank until the Banco Hipotecario de Filipinas opened in 1940.

As shown by the study of Maria Teresa Colayco (1984), the Bank of the Philippine Islands was the first commercial bank established in the Philippines. It was authorized to issue bank notes both during the Spanish and American periods. It opened branches in Iloilo in 1897, in Zamboanga in 1912, and in Cebu in 1924, expanding its operations for foreign exchange and discounting notes. Its assets, amount of loans, discounts and overdrafts, paid-up capital, and deposit ranked at the top among the commercial banks and trust companies in 1940, maintaining the prominent position among private banking institutions.

The Philippine Trust Company was established in 1916 by Manila-based Americans for trust business, and from 1920, it started operation for commercial banking. In early 1940s, the president of the company was an American, but the major stockholders were Filipinos (Nawata, 1943; Tirona, 1987 and 1988). The China Banking Corporation was incorporated in 1920 by Manila-based Chinese merchants. It opened its overseas branches in Amoy in 1925 and Shanghai in 1929, almost monopolizing the trade and remittance business with China (Chronicle Business Report, 1970; Licuanan, 1985). On the other hand, the Peoples Bank and Trust Company started its business under American capital in 1926. In 1940, it opened branches in the provinces of Pampanga, Laguna and Tarlac, as well as in Baguio. In Baguio, its operation was concentrated in the business of giving out loans for the export of gold to the US (Nawata, 1943; Colayco, 1984).

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The Monte de Piedad and Savings Bank was established in 1882. Its forerunner was Obras Pias, a credit association that was founded in 1594 with Catholic bequests as initial capital. The bank was first created for charity business for the poor, but later developed into a savings and mortgage bank (Brief History of the Monte de Piedad and Savings Bank, 1962).

*Foreign Banks.* Among the six foreign banks in Table 2, two were British, one was American, two were Japanese, and one was Dutch. The major banks among them were the Chartered Bank of India, Australia and China, the Hongkong and Shanghai Banking Corporation (both British), and the National City Bank of New York (American).

As widely known, the Chartered Bank was the second British colonial bank established in Asia in 1853, which extended operations in India and the Malay Peninsula. It opened branches in Manila in 1873 and in Iloilo in 1883, while agencies were opened in Cebu in 1900 and in Zamboanga in 1923 (closed in 1938) (Mackenzie, 1954). The Hongkong and Shanghai Banking Corporation was incorporated in Hongkong in 1867. It opened a branch in Manila in 1875 and an agency in Iloilo in 1883 (King, 1988). As shown in Table 2, in 1940, its assets and overdrafts reached 50 million pesos and 36 million pesos, respectively, keeping the top position among foreign banks.

On the other hand, the National City Bank of New York came to Manila only in 1930, when it absorbed a Manila branch of the International Banking Corporation. The National City Bank had served as a mother company of the International Banking Corporation in the United States since 1914. With this background, the National City Bank bought a Manila branch of the former. Since the merger, it aggressively penetrated into the business of foreign exchange that the two British banks had largely controlled (Manila Chronicle Special Report, 1971).

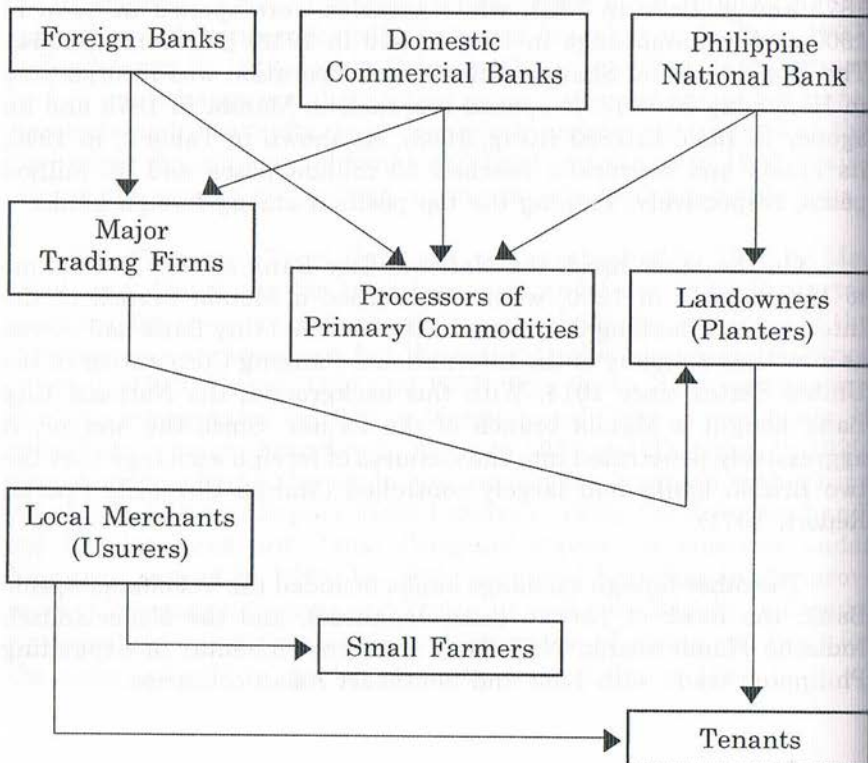
The other foreign exchange banks included the Yokohama Specie Bank, the Bank of Taiwan (both Japanese), and the Nederlandsch Indische Handelsbank, N.V. They were instrumental in expanding Philippine trade with East and Southeast Asian countries.

## 6. Banking Business and Export Economy

How did the business activities of major banks relate to the agricultural production for export, as well as export trade expansion in the Philippines? In this section, taking the examples of three banks, we will illustrate the relationship between the banking business and export economy in the Philippines during the American period.

Chart 2 shows the different roles of foreign banks, commercial banks, and government-affiliated banks in their loan business. Three patterns of banking business will be shown below in the cases of the Hongkong and Shanghai Bank, the Bank of the Philippine Islands, and the Philippine National Bank.

**Chart 2 - Relations between Major Banks and Traders or Producers**



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*Hongkong and Shanghai Banking Corporation.* Its major business activity during the American period was to provide loans for major foreign trading firms to purchase export crops from domestic producers (landowners or planters). In early 1900s, among the trading firms to which the bank provided loans, the most important ones were Warner, Barnes & Co., Smith, Bell & Co., Macleod & Co. (all three firms were British), Aldecoa & Co., and Compania Maritima. In the 1900s to 1910s, the bank mostly offered loans for abaca trading business. However, from the 1920s, lending services offered for sugar and copra exporting business, as well as rice milling, increased. The bank offered loans to the Luzon Rice Mills and the Philippine Vegetable Oil Co. at this time. In the Iloilo agency, most businesses were connected with sugar export. The major trading firms to which the bank provided credits were Smith, Bell & Co., Ynchausti & Co., and Compania General de Tabacos de Filipinas (Tabacalera) (Ybañez, 1983).

*Bank of the Philippine Islands.* During the late 19th century, this bank provided advances to American trading firms such as Russel & Sturgis Co., and Peele, Hubbell & Co., together with Tabacalera and Compania de los Tranvias de Filipinas. When the modernization of sugar mills started from the late 1910s to the 1920s, the bank not only provided crop loans to sugar planters, but also financed mills such as Victorias Milling Co., Inc., North Negros Sugar Co., Inc., and Asturias Sugar Central, Inc. In contrast with the case of the Hongkong and Shanghai Banking Corporation, the Bank of the Philippine Islands provided agricultural loans directly to big landowners (planters) in various local areas (Banco de las Islas Filipinas, 1928; Vergara, 1954; Colayco, 1984).

*Philippine National Bank.* This government-affiliated bank was formally established in May 1916 under Act No. 2611 (National Bank Act).<sup>5</sup> Its task was threefold: first, as a development bank providing loans for the production of primary commodities; second, as a commercial bank accepting deposits, conducting foreign exchange transaction and discounting notes, etc.; and third, as an official bank to deposit government funds to, and to issue bank notes.

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<sup>5</sup> Its forerunner was the Agricultural Bank of the Philippine Government. For details, see Nagano (1997).

As has been mentioned, under the gold exchange standard system, the Philippines maintained two currency reserves—the Silver Certificate Reserve Fund and the Gold Standard Fund—which were combined into the Currency Reserve Fund in 1918. The major part of the Currency Reserve Fund was deposited at the New York agency of the Philippine National Bank. Under confused and mistaken policies, a large proportion of the currency fund was utilized for financing sugar mills and for providing loans for coconut mills and abaca traders. At the end of World War I, prices of commodities declined sharply. Abaca traders and sugar and coconut mill owners were heavily indebted to the bank, while the currency reserve was totally exhausted. Facing the serious financial crisis, the Philippine government took drastic measures to rehabilitate the Philippine National Bank and to restore the currency reserve system. Through these measures, the business activities of the Philippine National Bank were stabilized by the late 1920s, which served as the biggest bank in the Philippines until the Japanese military invasion in 1941 (Luthringer, 1934; Stanley, 1974).

## 7. Conclusion

From what has been discussed above, the characteristics of the structure of the Philippine banking sector during the American period might be summarized as follows.

First, among the banks that survived throughout the American period, the Philippine National Bank was the biggest, in term of its size and the scope of its business activities. As local commercial banks, the Bank of the Philippine Islands and the China Banking Corporation played an important role, while as foreign banks, the Chartered Bank, the Hongkong and Shanghai Banking Corporation and the National City Bank of New York were prominent. It is noteworthy here that among the six banks mentioned above, there was only one American bank, indicating the weakness of American banking interest toward the Philippines. In comparison with the cases of other colonies in Asia, the distinctive feature of the Philippine banking system during colonial times is that its colonial master only had a minor interest in the banking sector of its colony.

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Second, in spite of the penetration of foreign banks in the Philippines, they could not monopolize the financial activities for export economy. The domestic banks such as the Philippine National Bank or the Bank of the Philippine Islands, penetrated into export business not only through financing trading firms but also through providing loans to local producers.

Third, modern banking institutions provided loans or advances only to major trading firms, large planters or mill owners for agricultural products for export. Small farmers or tenants were still forced to rely on usury in local areas. In this context, we might understand that the financial system in the Philippines developed a dual structure, divided into the nationwide network among major modern banking institutions and the locally marginalized network of the usury system.

To conclude, the dual structure of the financial system was largely observed in developing countries during the colonial period. What was peculiar in the Philippines was the absence of the monopolistic control of the financial sector by its colonial master. This is because the financial system developed according to the structure of the production system in the Philippines. It was the local landowners (or planters) who mainly controlled the export sectors, and a relatively minor investment by American capital was observed in the agricultural sector. In this situation, American banking capital was rather hesitant to invest in the Philippines. How should we call the nature of colonial banking sector during the American period? This shows a completely different picture from the banking sectors in British India or Ceylon (Sri Lanka) which were illustrated by John Maynard Keynes (1913) or H.A. de S. Gunasekera (1962).

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