

Unravelling the Micro-History of the Bank of China in India

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Vijay Gokhale, Foreign Secretary to the Government of India, in his briefing with the media after the Modi – Xi Jinping meeting in Qingdao, said that China is to open up its first branch of the Bank of China in Bombay (*Indian Express* 2018). This was celebrated as a major takeaway from the talks between the two leaders. The next day all the major newspapers in India gave importance to this particular development- the green signal to the opening of the first branch of the Bank of China in Bombay. What has been left out of these media reports is that this is not the first instance of the Bank of China operating from Indian soil.

This article aims to bring to light that the recent foray of Chinese banks in India, especially the Bank of China is not a singular phenomenon and it is certainly not the first instance in modern history. Multiple branches of the Bank of China operated in undivided India during the Second World War. This article will attempt to show how the official dispensation in British India saw the increase in the operations of the Bank of China in India and whether in contemporary

times, we could draw parallels from this particular case.

‘Tentacles of the Bank of China’ in Wartime India

The Second World War was probably the only period in modern history when India and China collaborated at an overarching level. Such intensity of cooperation has not been replicated ever since. As part of the common war efforts of the Allied Powers, India became the primary conduit for military and industrial supplies from the United States and Britain to China. Logistical coordination warranted the interim establishment of a number of Chinese organisations in India like the China National Aviation Corporation, China Defence Supplies, the Chinese Board of Transport Control, the National Resources Commission, China’s Ministry of Information, Ministry of Finance and the Bank of China (Thampi and Sharma 2015: 20). Evidence shows that branches of the Bank of China were established in Delhi, Calcutta¹, Karachi and Kalimpong² to facilitate commercial enterprises. A sub-agency of the

¹ National Archives of India (henceforth NAI), External Affairs Department (henceforth EAD). File No: 328(4)-X/1942 (Secret).

² NAI, EAD. File No:557-CA/1944 (Secret).

bank also existed in Bombay. Moreover, there were continuous talks to open new branches in the sub-continent.

The Bank of China³ during the war period was one of the four currency banks in China, along with the Central Bank of China, the Farmers Bank and the Bank of Communications. Even though the leading currency bank in China was the Central Bank of China, the Bank of China also tendered currency notes besides doing commercial business. The officials of China Defence Supplies⁴ simultaneously served as officials of the Bank of China. Noted businessman turned politician, T V Soong who headed the China Defence Supplies had been one of its Presidents.⁵

Branches of the Bank of China existed in Delhi, Calcutta, Karachi, Kalimpong and a sub-agency in Bombay. The Delhi office was located in Gopal Das building at Barakhamba Road.

Almost two months after the India visit of Generalissimo Chiang Kai-shek and Madame Chiang Kai-shek in February 1942, talks began on the establishment of the Delhi branch of the Bank of China. By this time, the Calcutta branch and the sub-agency in Bombay had already been established. In late May 1942, Shen Shih-hua, the recently appointed Commissioner of the Republic of China in Delhi, wrote a letter of introduction to Olaf Caroe, Secretary to the External Affairs Department, Government of India. In the letter, the Chinese Commissioner intimated the decision to establish a branch of

the Bank of China in New Delhi with Robert Yu as Manager. The main motive behind establishing the branch was to finance Chinese organisations in India and to give letters of credit to any British officials or organisations operating in or visiting China.⁶

The Chinese Commissioner requested the Government of India to provide logistical facilities for the bank. Yu had experienced difficulties in trying to find a place for the New Delhi office of the Bank of China. In the absence of a proper office building, the branch had been provisionally transacting business from a Bungalow at 19, Ratendone Road⁷ (present day Amrita Shergil Marg in Lodhi Estate), which also served as his place of accommodation. The Commissioner specifically asked for assistance from the authorities in Delhi to provide a place preferably in the Connaught Place area. The Estate Department of the Government of India found 5 properties matching the preference cited by the Chinese. A room⁸ in Gopal Das Building at Barakhamba Road was selected out the 5 properties and the Delhi branch of Bank of China was housed there.⁹

Apart from the problem of finding quarters in Delhi, the Bank of China also had to acquire permission from the Finance Department to begin its operations in Delhi. After consultation with the Reserve Bank of India (RBI), the Finance Department concurred that the Delhi branch of the bank should follow the same procedure as followed by its branches in Calcutta and Bombay. The Delhi branch was advised to fulfill the requisites needed by foreign companies for establishing business in

³ It was established in the 1912 by the Republican Government of Sun Yat-sen.

⁴ China Defence Supplies was the key organisation for directing American Lend-Lease Assistance to China. The India office facilitated the transportation of goods from India to China.

https://oac.cdlib.org/findaid/ark:/13030/kt867nf78s/entire_text/

⁵ NAI, EAD. File No: 328(2)-X/1942(Secret).

⁶ Ibid.

⁷ This place also served as the local Headquarters of the China Defence Supplies.

⁸ The rent of the place was fixed at Rupees. 100/- per month.

⁹ Ibid.

British India under Part X of the Indian Companies Act and apply for inclusion in the Second Schedule of the RBI Act.¹⁰

In order to facilitate remittances, the first two branches of the bank had been established at the beginning of the war in Bombay and Calcutta. Branches also existed in Kalimpong and Karachi. The establishment of the Delhi branch therefore did not face any major disapproval from the authorities in India. However, when talks for opening up a branch of in Kashmir was floated, it met with firm opposition. In September 1942, the British Embassy in Chungking informed the Foreign Office in London that the Bank of China was planning to open branches in Kashmir and Kashgar¹¹, which though not under British jurisdiction were considered strategically important. It was reported that a representative had already proceeded from Calcutta to Kashmir to decide on the location of the new branch. When Zafarullah Khan, the incumbent Agent-General of India (AGI) in China came to know of it, he admitted that he became ‘rather perturbed’ by the proposal. He feared that the establishment of the branches would ‘enable the Bank of China to play a good deal of hanky panky with Indian currency.’

His ‘uneasiness’ was particularly with the proposal to open a branch in Kashmir. He strongly advised the Government of India to take necessary action against having a branch in Srinagar due to ‘political and diplomatic’ considerations and hoped the ‘Bank of China will be kept out of Kashmir.’ However, if was ‘absolutely unavoidable’ to do so, he advised that the branch could be opened in Rawalpindi instead.¹²

Two reasons can be surmised to have precipitated Zafarullah Khan’s strong

objections. First, he feared that the establishment of the branch in Kashmir might possibly be linked to the opening up of the trade routes to Sinkiang via Leh and Gilgit. His apprehension was that the opening of a branch in Kashmir would be geopolitically detrimental for India’s long term ambitions in the region. Secondly, he believed that the Chinese banks in India could lead to the rise in anti-India propaganda in China by discreetly collecting information about India on the sideline of conducting its banking operations. This, especially when India had been already ‘saturated’ with Chinese propaganda. Hugh Edward Richardson¹³, Secretary to the Indian Agent-General at Chungking firmly supported the view expressed by Zafarullah Khan and pointedly remarked that ‘the tentacles of the Bank of China’ should be ‘kept as far as possible from our interests in the Mongolian fringe.’¹⁴

Zafarullah Khan, believed that BoC could do a ‘good deal of hanky panky with Indian currency.’ It was advised that ‘the tentacles of the Bank of China’ should be ‘kept as far as possible.’

The Intelligence Bureau (IB) of the Government of India concurred with the concerns raised by the AGI regarding the Bank of China posing a security risk. Since the beginning of the War, the Intelligence Bureau watched with growing alarm, the increase in Chinese population in India. One intelligence report on the activities of Chinese in India claimed that there were 22,000 Chinese civilians in India. This number excluded minors and the army of military personnel. By the second quarter of 1944, it had become the second largest foreign community in India after the Afghans. The Intelligence

¹⁰ Ibid.

¹¹ Kashmir had a British Resident at Srinagar and Kashgar, a Consulate.

¹² NAI, EAD. File No: 328(4)-X/1942(Secret).

¹³ Noted Tibetologist and British Indian Civil Servant.

¹⁴ NAI, EAD. File No: 328(4)-X/1942(Secret).

Bureau termed this as the beginning of ‘Chinese colonisation’ in India and reprimanded the Government of India for ‘exercising its familiar benevolence’ vis-à-vis the Chinese community which had led to the problem.¹⁵

The Intelligence Bureau identified Chinese banking concerns with their numerous branches in India as ‘useful ancillaries’ in the intelligence gathering project.

The increase in the population of Chinese in India led to the corresponding increase in other ancillary activities such as banking, remittances, restaurants, and the publication of Chinese newspapers and establishment of Chinese schools.¹⁶ Adequate ‘arrangements’ were made to watch the growing influx of Chinese community especially those aspects of Chinese activities which required ‘particular attention’ and which were ‘likely to constitute a danger unless carefully watched and reported.’ All the official Chinese agencies operating in India were strictly kept under the radar of the Intelligence Bureau. There were strong suspicions that the offices of the Chinese Consulate-General in Calcutta and Bombay acted as ‘nerve-centres’ for the collection of intelligence. The Consul-General in Calcutta, G Pao’s ‘behavior’ had been found to be ‘suspicious’,¹⁷ as was J Lao’s, the Charge d’affaires.

The Intelligence Bureau identified Chinese banking concerns with their numerous branches in India as ‘useful ancillaries’ in the intelligence gathering project. Besides, Chinese dentists, the ubiquitous cloth peddlers, and Chinese restaurants were also suspected to be in engaging in espionage for China. Indian

Intelligence authorities feared that Chinese restaurants acted as *postes restantes*, meeting places for Chinese travelling in India and offered facilities for observing military movements.¹⁸ The objections made by the officials like Zafarullah Khan, HE Richardson and the Intelligence Bureau arose primarily from the point of internal security and geopolitical concerns.¹⁹ This also attests to the argument made by Rana Mitter that wartime collaboration between Britain and China was a ‘poisoned’ one and was characterised by mutual distrust from both sides (Mitter 2013). It is evident that a section of the Government in British India saw the opening of the Bank of China with suspicion and recommendations to treat them as potential security risk went back and forth.

Apart from the security concerns, the other reason highlighted was the ‘passive’ opposition to the opening of British banks in China under Guomindang rule by the Chinese authorities. A set of officials believed that British India should retaliate and deny permission to Chinese banks to operate in India. The RBI was advised to call in the Chief Managers of the Bank of China in India and ‘politely point out the difficulties of continuing to help Chinese banks if there is no reciprocity.’ In fact, when the reports came in that the Chinese Government was planning to open a branch of the Bank of China in Lhasa, the India Office suggested that a British bank should also be opened there even though ‘not much business’ could be done in Lhasa. It should be noted that the RBI had very different ideas on the case. The RBI did not see any problem in the opening of the banks in India, nor did it think that the Bank of China could do ‘hanky-panky’ with Indian currency.²⁰

¹⁵ NAI, EAD. File No: 72-FE/1944.

¹⁶ NAI, EAD. File No: 182-X/1944.

¹⁷ NAI, EAD. File No: 98-FE/1944.

¹⁸ NAI, EAD. File No: 72-FE/1944.

¹⁹ NAI, EAD. File No: 328(4)-X/1942 (Secret).

²⁰ NAI, EAD. File No: 328(4)-X/1942(Secret).

At the end of the Second World War, most of the Chinese agencies in India were dissolved or moved back to China including the Bank of China. While the two nations enjoyed a brief period of neighbourly bonhomie, after the 1962 border war, bilateral relations between India and China reached its lowest ebb. Since then successive regimes in India and China have tried to improve bilateral ties and there is a growing consensus that India and China, keeping their disagreements on the border aside, should focus on improving economic relations. With regard to the opening of banks, the People's Republic of China has been more forthcoming than India.

According to RBI, as of 31 January 2018, there are two branches of State Bank of India, one branch each of the Bank of India, Bank of Baroda, Canara Bank, Axis Bank and ICICI Bank, totaling altogether 7 branches in China. Besides, the RBI document lists the existence of 17 Indian banks in Hong Kong, the second largest number after United Kingdom which has 32 Indian banks (Reserve Bank of India 2018). Effectively, there are 24 banks Indian banks operating in Mainland China and Hong Kong (*Hindu Business Line* 2013). As compared to that only one Chinese bank operates in India—the Industrial and Commercial Bank of China (ICBI) which opened a branch in Bombay in 2011. It can be safely surmised that security concerns, just like in the war period, have been the main reason behind the hesitancy on the part of the Government of India to give permission to Chinese banks to operate in India (*The Telegraph* 2018).

Conclusion

The case of the existence of multiple branches of the—Bank of China during World War II shows that economic cooperation and political collaboration between India and China went hand-in hand with a heightened degree of

suspicion. It also exposes the fault lines of the uneasy alliance between India and British India. Security concerns were often cited to discourage and hinder the coming of Chinese banks to India. The Bank of China, was largely seen as a cogwheel in China's larger network of wartime espionage in India. The expansion of the Bank of China was considered as an expansion of China's machinations and hence regarded with a certain degree of wariness by the authorities. The risk increased with regard to the geopolitically sensitive areas of Kashmir, Kashgar and Tibet, where they saw China as a potential threat. These places though territorially not under the British rule, were considered within the zone of influence of British Empire. Any news report of Chinese banks opening in these areas were treated with a great deal of urgency and seriousness. The Bank of China, therefore, was quite often, at the very centre of British India's wartime security predicament.

It can be safely surmised that security concerns, just like in the war period, have been the main reason behind the hesitancy on the part of the Gol to give permission to Chinese banks to operate in India

While suspicion and deep-seated mistrust with regard to China and specifically to the operations of the Bank of China during the war period is apparent, however, we also see that pragmatism and the practical need of collaborating with China as an Allied Power prevailed over the many voices of opposition within the Government. The branches of the Bank of China were given assistance and considerable help to conduct their operations. Suspicion and apprehension however, were an important manifestations of the uneasy wartime collaboration between Britain and China. This despite a friendly Guomindang Government in power in China, which had good relations with

both the British Government of India and the pro-independence Indian National Congress. Moreover, there had been no conflict over borders yet. However, the suspicion over China existed. It can only be wondered if the British colonial authorities anticipated the rise of China in the post-war period as one of India's most serious rival.

While, today's suspicion of Communist-led China can be attributed to a great extent, to the fall out post the border war of 1962, the interplay of the economic rise of India and China in recent times and their great power ambitions have led to an intensification of rivalry between the two neighbours. We cannot be certain if in the contemporary times we will see a replay of the same attitude to Chinese banking institution in India, it is nevertheless interesting to revisit this important piece of interaction between India and China. If not anything else, it may tell us how to strike a balance between security interests and diplomatic relations. ■

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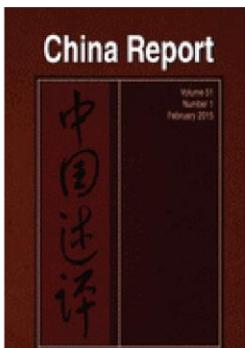


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