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The Correlation Between World Silver Prices and Economic Fluctuations in Early Modern Vietnam through the Operations of the Bank of Indochina

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Abstract:

This paper examines the close correlation between global silver price fluctuations and the economic stability of modern Vietnam (1875–1954), mediated by the regulatory role of the Bank of Indochina (BIC). Throughout the 1878–1930 period, the Indochinese Piastre operated under the silver standard, rendering its value highly contingent upon international metal markets. The research demonstrates that plummeting silver prices (1878–1914, 1920–1930) led to the devaluation of the Piastre, which bolstered exports but simultaneously escalated import costs and public debt. Conversely, the surge in silver prices (1914–1920) induced monetary scarcity, hindering broader economic expansion. As the sole issuing authority, the BIC implemented monetary policies designed to safeguard French capital interests, culminating in the 1930 transition to the gold standard to peg the Piastre to the French Franc. The findings underscore the inherent vulnerability and structural dependence of the colonial economy on global financial shocks.

Keywords: *Bank of Indochina, world silver prices, silver standard, colonial Vietnamese economy, exchange rate.*

I. INTRODUCTION

In the economic history of early modern Vietnam, the monetary system served not only as a medium of exchange but also as a profound reflection of the colonial economy's dependence on international financial markets. Since its inception in 1875, the Bank of Indochina (BIC) rapidly ascended to become the "sovereign bank," wielding absolute economic privileges granted by the French government. A salient feature of the Indochinese economy during this era was the operation of the Piastre under the silver standard. The rigid anchoring of the local currency to silver rendered the Vietnamese economy acutely sensitive to global exchange rate volatility.

Continuous fluctuations in silver prices across major financial hubs, such as London and New York, directly triggered economic tremors within Indochina. According to research by Duong To Quoc Thai (2021), fluctuations in the Indochinese silver currency exerted a decisive influence on all credit and investment activities, particularly the structural transformation of the agricultural economy. During the 1921–1929 period, the persistent decline in global silver prices led to a severe devaluation of the Piastre against the French Franc, resulting in significant instability in monetary circulation.

To safeguard the interests of French financial capital and stabilize fiscal revenues, the colonial administration was compelled to implement coercive monetary reforms. This culminated in the decree of May 31, 1930, which officially transitioned the Indochinese Piastre from the silver standard to the gold standard, pegging its value to the French Franc at a fixed ratio. This paper focuses on analyzing the causal relationship between international silver prices and macroeconomic indicators in Vietnam, thereby elucidating the colonial regulatory role of the Bank of Indochina throughout the process of colonial exploitation.

II. LITERATURE REVIEW

Research into the correlation between global silver prices and economic fluctuations in colonial Vietnam is a multifaceted subject, requiring a convergence of financial history, monetary policy, and colonial political economy. A review of existing literature reveals that this issue has been approached from various perspectives, ranging from the functions of issuing banks to the broader implications of the silver standard.

Firstly, studies focusing on the monetary system and the Bank of Indochina (BIC) provide an essential foundation for understanding the operational mechanisms of the Piastre. Works such as *The History of Indochina's Currency and the Banque de l'Indochine from the Late 19th to the Mid-20th Century* by Phan Ha Uyen (1987) and *Vietnam's Monetary Policy – From the Colonial Period to the Second Republic* by Nguyen Anh Tuan (1968) outlined the overarching development of the colonial currency. These scholars emphasized that maintaining the silver standard while the rest of the world transitioned to the gold standard was a structural characteristic of the Indochinese economy. Furthermore, the *History of the State Bank of Vietnam* (1976) focused on the BIC's monopoly over currency issuance, elucidating how the bank amassed enormous profits through exchange rate disparities and the control of monetary circulation.

From an international perspective, French and Japanese scholars have delved into the nature of the BIC as a versatile financial institution. Marc Meuleau (1990), in *Des Pionniers en Extrême-Orient*, provided invaluable primary data on the history of the BIC since 1875, highlighting its extensive branch network and its adaptability in the face of global financial crises. Yasuo Gonjo (2018), in *Banque coloniale ou banque d'affaires*, offered a profound analysis of the BIC's operational model during the Third Republic, noting its evolution from a purely colonial bank to an investment (merchant) bank. This transformation directly influenced the regulation of silver prices to serve French financial capital. Notably, Jean-Pierre Aumiphin (1994), in *La Présence Financière et Économique Française en Indochine*, examined the dependence of the regional economy on the metropole's monetary policies, particularly during periods of exchange rate volatility between the Piastre and the French Franc.

More recently, research by Duong To Quoc Thai (2021) has provided a systematic view of the impact of French financial capital on Vietnam's economic structure. The author demonstrated how the BIC utilized credit and issuance instruments to manipulate the rice and rubber markets sectors most sensitive to global silver price fluctuations. However, most current research tends to focus independently on bank management functions or foreign trade history. The direct link between international silver price shocks and specific macroeconomic fluctuations (such as inflation, public debt, and the income of indigenous farmers) remains insufficiently analyzed in a quantitative and continuous manner. This is the gap that the present article aims to address by clarifying the causal relationship between the world's precious metal markets and the economic health of early modern Vietnam.

III. THEORETICAL FRAMEWORK

The study of the correlation between global silver prices and economic fluctuations in early modern Vietnam is constructed upon three primary theoretical pillars: Metallic Standard Theory, Finance Capital Theory, and Dependency Theory.

Firstly, Metallic Standard Theory serves as the foundational framework. During the 1878–1930 period, the Indochinese Piastre operated under a silver standard, a system in which the currency's value was defined by a specific weight of silver. Under the "commodity money" perspective, the value of currency resides not merely in its legal tender status but in the intrinsic value of the metal on the global market. As world silver prices fluctuated in markets like London, they directly altered the exchange rate of the Piastre, triggering significant "shocks" to commodity prices and public debt within Indochina.

Secondly, Finance Capital Theory, as proposed by Rudolf Hilferding (1910), elucidates the role of the Bank of Indochina (BIC). Finance capital represents the fusion of banking and industrial capital under the control of major financial institutions. The BIC functioned not only as an issuing bank but also as a regulatory entity managing capital flows, exercising its monopoly to optimize profits for metropolitan France. As Jean-Pierre Aumiphin (1994) observed, the Indochinese monetary system frequently underwent adaptations to align with colonial interests and economic shifts within the metropole.

Finally, Dependency Theory illuminates the inherent vulnerability of the Vietnamese economy. Within this structure, the colonial economy acted as a "satellite" supplying raw materials, susceptible to the direct influence of global financial "centers." Maintaining the silver standard while major powers transitioned to the gold standard created a barrier that prevented the stability of private capital. Fluctuations in silver prices were not merely financial issues but instruments used by the BIC and the colonial administration to regulate purchasing power and export profits in favor of French capitalist conglomerates. These shifts, according to Duong To Quoc Thai (2021), distorted the economic structure and induced prolonged instability in the indigenous economy prior to 1930.

IV. METHODOLOGY

This study employs an interdisciplinary approach, integrating documentary historiography with quantitative economic analysis to assess the impact of global silver price fluctuations on the early modern Vietnamese economy.

Firstly, the historical and logical methods are utilized to examine primary archival sources, including the Annual Reports (*Rapports annuels*) of the Bank of Indochina (BIC) from 1875 to 1930, monetary decrees by the Governor-General of Indochina, and records from the French National Overseas Archives (ANOM). Processing these sources allows for the reconstruction of the silver standard's operational mechanics and the BIC's exchange rate regulatory decisions during periods of monetary crisis (Duong To Quoc Thai, 2021).

Secondly, the research applies statistical and comparative methods to analyze the correlation between economic variables. Data on silver bullion prices from the London and New York markets are synthesized and compared with commodity price indices, the exchange rate of the Piastre against the French Franc, and the colonial government's public debt. Comparing periods of surging silver prices (such as during World War I) with periods of decline (such as the 1920s) clarifies the sensitivity of the colonial economy to external shocks (Aumiphin, 1994).

Finally, the paper utilizes systems analysis to explain the role of the BIC not merely as a banking institution but as a regulatory tool of finance capital. This approach enables the study to move beyond descriptive narration toward a deeper understanding of "dependent modernization," wherein fluctuations in international precious metal markets were transformed by the BIC into mechanisms for exploitation or capital accumulation for metropolitan France (Duong To Quoc Thai, 2020).

V. FINDINGS & DISCUSSION

5.1. The Operational Mechanism of the Bank of Indochina's Silver Standard: Currency Issuance Based on Silver Bullion Reserves

The presence of the Bank of Indochina (BIC) from 1875 marked not only a turning point in financial management but also established a unique monetary mechanism: the silver standard. Unlike metropolitan France, which had transitioned to a gold or bimetallic standard, Indochina remained tethered to a system where the currency's value was strictly tied to the physical value of silver bullion. The BIC's issuance mechanism was built upon a triangular relationship: silver bullion reserves – the monopoly privilege of banknote issuance – and international exchange rates.

The foundation of this mechanism began with determining the intrinsic value of the currency unit. The BIC minted the *Piastre de Commerce* (commonly known as the "Mexican Eagle" or "Silver Piastre") with a fixed weight and purity to replace the chaotic pre-colonial currencies. According to Duong To Quoc Thai (2021), the BIC maintained massive silver bullion reserves at major branches like Saigon and Haiphong to guarantee convertibility. The issuance of Indochinese banknotes (*billets de banque*) was, in principle, backed by a specific ratio of precious metal reserves in the bank's vaults. Aumiphin (1994) argues that this mechanism allowed the BIC to control the total money supply while becoming the region's largest "silver merchant," as all silver import and export activities were coordinated by this institution.

The BIC did not issue banknotes arbitrarily but based on the demands of the export commodity market, particularly rice. During harvest seasons, the BIC released Piastre banknotes to purchase rice, and this supply was backed by the exchangeable silver bullion accumulated from export revenues. Duong To Quoc Thai (2020) identifies a paradox: although circulating on a silver standard, the BIC conducted international transactions with the metropole in French Francs (gold standard). This created a "limping standard" mechanism where the BIC profited from the disparity between global silver prices and fixed gold exchange rates in Paris. According to Hilferding (1910), this is a classic manifestation of finance capital, where banks use issuance rights to appropriate surplus value through exchange rate arbitrage.

The bullion-based issuance mechanism made the Vietnamese economy a "hostage" of silver exchanges in London and New York. When global silver prices rose, the Piastre's value increased accordingly, hindering rice exports as goods became more expensive for foreign buyers. Conversely, when silver prices fell, the Piastre devalued, causing domestic inflation but yielding massive profits for French export corporations. Duong To Quoc Thai (2018) asserts that the BIC frequently adjusted reserve ratios and issuance limits to adapt to these fluctuations, but the primary goal was always protecting the bank's liquidity rather than stabilizing the cost of living for indigenous people. North (1990) explains that colonial institutions like the BIC were established to reduce transaction costs for metropolitan capital, regardless of the macroeconomic risks borne by the native economy.

This monopoly created a spiral of financial dependence. According to reports from the Gouverneur Général de l'Indochine (1920), taxes paid in cash and agricultural loans issued in BIC banknotes

forced farmers to participate in a monetary economy over which they had no control. Scott (1976) emphasizes that the transition from a subsistence economy to a monetary economy based on a highly volatile metal like silver shattered the minimum stability of rural Vietnam. Pham Thang (1995) adds that the BIC skillfully used silver reserves to manipulate the monetary market during the 1920s, causing the Piastre to fluctuate unpredictably before being forced to peg to gold in 1930.

This operation exemplifies Dependency Theory, where the colonial monetary structure serves as a mere adjunct to the metropole's financial system (Zelizer, 1994; Murray, 1980). The BIC transformed silver bullion into a tool of power simultaneously a modern medium of exchange and a financial trap that kept the early modern Vietnamese economy under the regulation of French finance capital (Duong To Quoc Thai, 2021; Le Dinh Chan, 1966; Robequain, 1939).

5.2. Impacts of the Global Silver Price Decline (1890s – 1920s)

The period from the late 19th century to the 1920s witnessed violent fluctuations in international silver prices, notably a prolonged downward trend relative to the gold standard. Since the Indochinese Piastre was strictly pegged to silver, every decline in world silver prices led to a corresponding devaluation of the local currency against the French Franc and other hard currencies. This phenomenon created a dual impact: on one hand, it stimulated agricultural exports; on the other, it plunged the local economy into a spiral of hyperinflation and impoverishment.

As global silver prices fell, the Piastre depreciated, making rice exports from Cochinchina relatively cheaper on the international market. This created a massive competitive advantage for Indochinese rice in gold-standard markets or neighboring countries. Duong To Quoc Thai (2021) analyzes that the weakening of the local currency transformed Indochina into an "export haven," where French commercial syndicates could purchase agricultural products using cheap Piastres and resell them globally for hard currencies or higher-valued Francs.

The surge in rice export volumes during this period is a clear testament. Credit from the Bank of Indochina (BIC) was heavily injected into rice mills and purchasing firms to exploit this "low-cost" opportunity. According to Aumiphin (1994), the surplus profits from exchange rate disparities did not reach the farmers but flowed directly into the pockets of speculators and the BIC. Production scale was expanded not through technical innovation but by exploiting exchange rate advantages a form of "capital accumulation through financial dispossession" as described by Hilferding (1910) in finance capital theory.

However, the dark side of the Piastre's devaluation was severe imported inflation. Since most industrial goods, luxury necessities, and machinery were imported from France or gold-standard countries, their prices in Piastres skyrocketed. Duong To Quoc Thai (2020) asserts that the cost of living in urban centers like Saigon and Hanoi rose much faster than the wage growth of indigenous civil servants and workers.

This inflation indirectly dispossessed the people of their wealth. Indigenous laborers received wages in depreciating Piastres, while domestic rice prices were pulled upward by export prices. Scott (1976) argues that silver price volatility shattered the "real income" stability of peasants, forcing them into debt as production costs (taxes, seeds, imported tools) rose while accumulated savings eroded. BIC credit in an inflationary context became even more expensive, leading farmers into an inescapable "debt trap" (Duong To Quoc Thai, 2018).

The operational structure of the BIC ensured that all silver-related risks were transferred to the indigenous population. When the Piastre devalued, the public debt of the Governor-General's government (borrowed in Francs) increased, leading to higher taxes on the natives to cover budget deficits. North (1990) explains this as a consequence of establishing unfair financial institutions where monetary rules only serve the goal of maintaining metropolitan exchange profits.

The decline in silver prices also weakened the position of Vietnamese small traders and minor landlords, who lacked access to the BIC's exchange risk insurance tools. Pham Thang (1995) records that while the BIC profited from silver speculation, indigenous households saw their savings evaporate along with the currency's devaluation. This was a process of forced "proletarianization" through monetary mechanisms (Murray, 1980). The combination of high inflation and low purchasing power stifled the formation of a domestic market in Indochina, turning the region into an entity that only exported resources and imported inflation (Robequain, 1939; Zelizer, 1994).

In conclusion, the global silver price decline from 1890 to 1920, regulated by the BIC, created an economy that grew upon the impoverishment of indigenous society. Export profits were an illusion for the peasants, but inflation and the decline in purchasing power were the harsh realities they endured (Duong To Quoc Thai, 2021; Le Dinh Chan, 1966).

5.3. The Silver Crisis and the Transition to the Gold Standard (1930): France's Decision to Stabilize the Piastre and Its Consequences for a Declining Economy

The late 1920s and early 1930s marked a pivotal era for the monetary regime in Indochina. After decades of being tethered to the silver standard, the Piastre fell into a severe exchange crisis due to the freefall of global silver prices. To safeguard the financial interests of the metropole and stabilize the investment environment, the French colonial administration executed a historic monetary reform in 1930: transitioning the Piastre to a gold exchange standard.

Beginning in 1926, global silver prices plummeted due to increased production and the shift toward the gold standard by major nations like India. This caused the Piastre's value to drop continuously against the French Franc. Duong To Quoc Thai (2021) analyzes that this instability paralyzed long-term investment activities and complicated budget planning for the Governor-General. The Bank of Indochina (BIC), as the issuing bank, faced immense pressure to maintain liquidity. According to Aumiphin (1994), maintaining the silver standard while France had stabilized the Franc under gold (since 1928) created a financial chasm, exposing capital movements between the metropole and the colony to extreme exchange risks.

On May 31, 1930, the French government officially issued a decree stabilizing the Piastre against gold at a fixed rate of 1 Piastre = 10 Francs. This decision aimed to "goldize" colonial finances and eliminate the negative impacts of global silver price fluctuations. Pham Thang (1995) observes that this was the final effort by the French to tether the Indochinese economy to Paris's financial orbit, turning the Piastre into a "satellite" of the Franc.

However, the decision to stabilize the currency occurred just as the Great Depression (1929–1933) began to hit Indochina. Fixing the Piastre at a high value (10 Francs) while global agricultural prices were falling sharply led to catastrophic consequences. Duong To Quoc Thai (2020) asserts that the overvalued currency directly eroded the competitive advantage of Cochinchinese rice exports. While neighboring countries like Siam (Thailand) or Burma devalued their currencies to boost exports, Vietnamese rice became artificially expensive on the international market.

This situation resulted in a stagnation of production and trade. Robequain (1939) observed that while production costs and taxes remained high under the new currency value, the real income of farmers and landlords fell sharply due to export failures. According to Scott (1976), the combination of a "hard" currency and low agricultural prices created a "pincer" that squeezed rural life, driving peasants into heavy debt and impoverishment.

The Bank of Indochina played a thorough role in enforcing this transition. The BIC recalled silver bullion and old coins to replace them with banknotes backed by gold in Paris. Duong To Quoc Thai (2018) points out that through this process, the BIC transferred a significant portion of precious metal reserves from the colony to the metropole's vaults, enhancing capital accumulation for French financial syndicates. Hilferding (1910) argues that this represents the highest form of finance capital, where monetary policies are used as instruments to regulate the flow of value from the colony to the imperial center.

Consequently, rather than saving the economy, the 1930 transition to the gold standard exacerbated the socio-economic crisis in Vietnam. Nguyen Anh Tuấn (1968) emphasizes that "hard currency" policy in a "soft economy" (based on agriculture) caused prolonged deflation, exhausting domestic purchasing power. The works of Le Dinh Chan (1966) and Pham Thang (1995) both agree that this reform only provided stability for French investors, while the indigenous economy paid the price with deep recession and violent social upheavals in 1930–1931. Dependence on French gold, as described by Murray (1980) and Zelizer (1994), completed the financial trap set by the French through the machinery of the Bank of Indochina.

5.4. Discussion

The research results reveal an organic and complex correlation between world silver price fluctuations and the economic ups and downs of early modern Vietnam, mediated through the regulatory "filter" of the Bank of Indochina (BIC). Unlike autonomous economies, the colonial economy of Indochina lacked self-defense mechanisms against external shocks, remaining entirely dependent on politico-financial decisions from Paris.

Firstly, the decline in silver prices between 1890 and 1920 was not merely an objective economic phenomenon but was exploited by the BIC as a tool to maximize land rent and commercial profit extraction. Duong To Quoc Thai (2021) pointed out that

maintaining the silver standard for a prolonged period, despite causing inflation for the indigenous population, was a "deliberate" strategy to stimulate rice and rubber exports to serve the metropole. This aligns with Aumiphin's (1994) view that France constructed an "asymmetrical" financial system where all exchange risks were shifted onto local producers.

Secondly, the transition to the gold standard in 1930 serves as a typical example of prioritizing finance capital interests over the stability of the colonial real economy. This decision, as Pham Thang (1995) argued, stripped away the last exchange "safety valve" for Indochinese agricultural products amidst the global Great Depression. This event confirms Hilferding's (1910) theory regarding the power of finance capital to reshape colonial economic spaces to facilitate capital accumulation.

Furthermore, the BIC's role extended beyond currency issuance to being a selective "credit coordination center." As clarified by the research of Duong To Quoc Thai and Pham The Hung (2025), BIC credit flowed primarily into rubber plantations and major French corporations, while the indigenous economic sector was left to languish in the usury cycles of foreign merchants. The lack of a universal credit system left the local population unable to withstand the hyperinflation caused by silver price volatility (Duong To Quoc Thai, 2020).

Finally, this correlation reflects the essence of a "dependent colonial economy." Every effort by the BIC to stabilize exchange rates or reform currency was, in fact, to protect the surplus value being transferred back to France. Murray (1980) and Robequain (1939) both agree that the Vietnamese economy during this period was merely a link in France's global supply chain, where silver and gold prices were the ropes controlling the fate of the domestic market. Consequently, whether through export growth (due to falling silver prices) or monetary stability (due to the gold standard), these did not lead to sustainable development for Vietnam but only deepened social impoverishment (Scott, 1976).

VI. CONCLUSION

The study of the correlation between global silver prices and economic fluctuations in early modern Vietnam through the operations of the Bank of Indochina (BIC) has elucidated the nature of a dependent and vulnerable colonial economy. Through the analytical process, this paper arrives at three central conclusions:

Firstly, the maintenance of the silver standard in Indochina while the majority of major economic powers had transitioned to the gold standard was a deliberate financial strategy of the French colonialists. The Bank of Indochina, with its exclusive issuance privileges, transformed the Piastre into an intermediary tool to convert exchange rate shocks from the London and New York markets into advantages for capital accumulation. Volatility in global silver prices did not merely affect exchange rates; it was a direct agent in reshaping trade structures, turning Vietnam into a low-cost raw material supply zone while forcing it to bear the costs of expensive imports and public debt.

Secondly, the role of the Bank of Indochina in regulating silver prices reveals the dual nature of a colonial financial institution. The BIC was simultaneously an agent of monetary modernization through the standardization of the Piastre and an entity that manipulated the market to protect French financial capital interests. During periods of declining silver prices (1890s-1920s), the BIC stimulated rice exports based on the devaluation of the indigenous currency, indirectly triggering hyperinflation and eroding the real purchasing power of smallholders and laborers. The artificial stability achieved after the transition to the gold exchange standard in 1930 was, in essence, a sacrifice of the indigenous economy's competitiveness in exchange for the security of capital flows returning to the metropole.

Finally, this research confirms that economic fluctuations in early modern Vietnam were not random phenomena but the result of a "double dependence" mechanism: dependence on global silver and dependence on BIC regulation. This system created an unsustainable growth model where profits were concentrated in capitalist conglomerates, while exchange risks and deflationary burdens were shifted onto the native population. This provided the profound foundation for acute social contradictions, setting the stage for subsequent movements for economic and political independence.

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