

# The Transition from Commodity Money to Fiat Money: The Role of the Bank of Indochina in Modernizing Payment Behaviors in Vietnam (1875–1930)

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## Abstract:

This article examines the pivotal role of the Bank of Indochina (BIC) in transforming payment behaviors in Vietnam between 1875 and 1930. Drawing on archival sources and the Diffusion of Innovations theory, the study analyzes the shift from traditional commodity money (zinc, copper, and silver coins) to fiat banknotes. The findings reveal that the BIC successfully modernized user behavior through three core strategies: establishing issuance monopolies, guaranteeing exchange liquidity, and leveraging institutional pressure from the colonial administration. The research highlights that the establishment of institutional trust was the decisive factor in breaking the indigenous population's psychological preference for metallic currency. This paper contributes a novel perspective to Vietnamese economic history through the lens of behavioral economics.

**Keywords:** Bank of Indochina, Colonial currency, Payment behavior, Indochinese banknotes, Financial history.

## I. INTRODUCTION

The establishment of the Bank of Indochina (BIC) in 1875 marked not only a turning point in the creation of the colonial financial apparatus but also the beginning of a revolution in economic behavior in Vietnam. Prior to the French arrival, the indigenous economy operated on a diverse yet cumbersome metallic currency system, where monetary value was intrinsically linked to the physical weight of copper, zinc, and silver. This deep-seated preference for commodity money created a significant psychological barrier to the acceptance of fiat banknotes a payment instrument based entirely on institutional trust.

According to Duong To Quoc Thai (2020), the Bank of Indochina rigorously exercised its role as finance capital through the monopoly of banknote issuance, thereby dominating the entire economic lifeline of the Federation. However, this transition did not occur organically. As Pham Thang (1995) noted in his numismatic studies of Indochina, the introduction of BIC banknotes was initially met with skepticism by the local population, who trusted the intrinsic value of silver coins

more than printed slips of paper. To modernize payment behaviors, the BIC had to employ a complex strategy: from administrative compulsion through the taxation system to maintaining metallic convertibility at its branches. This process was not merely a change in the medium of exchange but reflected the diffusion of innovations within a transforming traditional society (Rogers, 2003). This article focuses on decoding how the Bank of Indochina established trust and reshaped Vietnamese payment habits, thereby clarifying the colonial nature of modernization during the 1875–1930 period.

## II. LITERATURE REVIEW

Research on the Bank of Indochina (BIC) has garnered significant academic interest through various analytical lenses. The French orthodox school, led by Aumiphin (1994), focuses on financial presence as an instrument of political expansion, emphasizing the BIC's role as an extension of the metropolitan treasury aimed at stabilizing the colonial economy. From a numismatic perspective, Pham Thang (1995) and Le Dinh Chan

(1966) provided comprehensive descriptions of the evolution of denominational systems, while identifying the conflicts between traditional currency units (zinc and copper coins) and Indochinese banknotes. These works are fundamental in outlining the technical landscape of the colonial-era monetary system.

In recent years, the finance capital perspective has become more prominent through the work of Duong To Quoc Thai (2020), who profoundly analyzed how the BIC monopolized key economic sectors such as rubber, mining, and rice exports through credit privileges. Nevertheless, most existing literature remains centered on macro-indicators or the political history of the banking institution. There is a notable scarcity of research delving into end-user behavior specifically the psychological and practical processes through which the indigenous population shifted from a preference for commodity money to the acceptance of fiat banknotes. This research gap necessitates an interdisciplinary examination between economic history and theories of financial innovation to decode the modernization of payment behaviors in Vietnam during the 1875–1930 period.

### III. THEORETICAL FRAMEWORK

To decode the modernization of payment behaviors under the influence of the Bank of Indochina (BIC), this study employs a multidimensional analytical framework incorporating innovation diffusion, institutional trust, and transaction costs.

*Firstly*, Rogers' (2003) Diffusion of Innovations theory provides the foundation for understanding how banknotes an alien financial entity penetrated traditional Vietnamese society. According to Rogers, the adoption of an innovation depends on "relative advantage" and "compatibility." In the Vietnamese context, BIC banknotes had to demonstrate superior convenience over the cumbersome zinc and copper currency system, which Le Dinh Chan (1966) described as a significant obstacle to large-scale capital accumulation and circulation.

*Secondly*, the shift in payment behavior is examined through Institutional Trust Theory. Since banknotes are "fiat money," their value resides not in physical substance but in trust in the issuing entity. The BIC established this trust through the guarantee of the French metropole and its exclusive issuance monopoly. As Duong To Quoc Thai (2020) argues, the BIC's position as "finance capital" relied not only on its capital potential but also on its ability to impose a new monetary order through the compulsion of the colonial apparatus. This trust was further reinforced by "liquidity commitment" the ability to exchange banknotes for metallic silver at branches a strategy that Pham Thang

(1995) considers vital for maintaining the Piastre's value amidst market skepticism.

*Thirdly*, the study utilizes Transaction Cost Economics to explain the motivations for user change. North (1990) emphasizes that effective financial institutions are those that reduce transaction costs for the economy. The presence of the BIC's branch network replaced risky metallic currency transport with checks and exchange systems. This process created a new "Subjective Norm" according to the Theory of Reasoned Action (Ajzen & Fishbein, 1980), where the use of banknotes gradually became a symbol of modernity and integration into the global market economy. Finally, the BIC's impact was not merely technical but also a form of "symbolic violence" within the colonial economic structure, forcing the indigenous population to abandon old habits to adapt to the Western capitalist trajectory (Aumiphin, 1994).

### IV. METHODOLOGY

This research employs an interdisciplinary approach, integrating textual historiography with behavioral economic analysis to elucidate the role of the Bank of Indochina (BIC).

*Firstly*, the study utilizes historical and logical methods to exploit primary archival sources. Key data were extracted from the BIC's Annual Reports (*Rapports annuels*) during the 1875–1930 period, decrees on currency and taxation issued by the Governor-General of Indochina, and colonial administrative records from the French National Overseas Archives (ANOM). Cross-referencing these sources allows for the reconstruction of the institutional policy trajectory and the actual market responses from the indigenous population.

*Secondly*, the research applies Content Analysis to regulatory texts and numismatic visual materials. Specifically, the artistic designs and semiotics of Indochinese banknotes are analyzed to clarify the BIC's strategy of establishing visual trust.

*Thirdly*, a Quantitative Method is utilized to synthesize data regarding the volume of banknotes in circulation relative to metallic reserves. This helps measure the "diffusion of innovation" and the rate of banknote adoption in practical circulation. Finally, the study employs the Historical Comparative Method to contrast the BIC's model in Vietnam with contemporary colonial banking models in Southeast Asia, thereby highlighting the specificities of the modernization of payment behaviors within the French colonial context.

### V. FINDINGS & DISCUSSION

#### 5.1. The Reality of Payment Behaviors Before and After the Emergence of BIC Banknotes

### 5.1.1. *Traditional Payment Behavior: The Dominance of Metallic Currency (Pre-1875)*

Before the Bank of Indochina (BIC) established its monopoly, the Vietnamese economy operated on a diverse but fragmented metallic currency system. According to Le Dinh Chan (1966), zinc coins (*sapèques*) and copper coins were the most prevalent payment instruments in daily life. However, their value was not based on nominal denominations but depended on the weight and purity of the metal. This led to a specific economic behavior: the population perceived money as a commodity with intrinsic value (commodity money) rather than a medium of exchange.

The bulkiness of metallic currency created immense transaction cost barriers. Pham Thang (1995) described that to conduct large transactions, merchants had to transport tons of zinc coins on bullock carts or boats, incurring security risks and labor costs. "Hoarding" behaviors also became common; individuals tended to hide silver bars and cast coins due to a lack of trust in the stability of issuing institutions (Duong To Quoc Thai, 2020). This was a state of "monetary stagnation," where capital was frozen in primitive physical forms.

### 5.1.2. *The Infiltration of BIC Banknotes and the Institutional Trust Revolution*

The introduction of BIC banknotes in 1875 brought an entirely new entity into the market: fiat money. Initially, BIC banknotes encountered strong resistance. Rogers (2003) argues that innovations are often rejected if they are incompatible with existing cultural values. The Vietnamese, accustomed to the tactile feel of heavy metal, felt that banknotes were "worthless." Aumiphin (1994) noted that in the early years, BIC banknotes circulated primarily among French officials and major merchants in Saigon, while rural areas maintained the use of copper coins.

However, payment behaviors began to shift when the BIC adopted a "liquidity guarantee" strategy. Pham Thang (1995) emphasized the role of "exchange windows" at branches in Hanoi and Haiphong, where people could exchange banknotes for silver trade dollars (*Piastre de Commerce*) at any time. This commitment gradually transferred trust from "matter" to "institution." By the 1900s, paying taxes in banknotes became mandatory, forcing the population to engage with this form of currency (Duong To Quoc Thai, 2020).

### 5.1.3. *Behavioral Changes After BIC Banknotes Established Dominance (1900–1930)*

The period 1900–1930 witnessed a clear modernization in payment behaviors. According to BIC's annual reports (*Rapports annuels*), the volume of paper money in circulation skyrocketed from a few million to hundreds of millions of *Piastres*. North (1990) points out that

effective institutions reduce transaction costs, and in practice, BIC paper money achieved this. Payment behavior was no longer limited by physical weight. Merchants began using large denominations (\$100, \$500) to pay for rice and rubber, creating flexibility for capital flows (Duong To Quoc Thai, 2020).

Modernization was also reflected in the formation of habits using checks and bills of exchange between major cities. Ajzen and Fishbein (1980) explain that human behavior changes when subjective norms change; using paper money at this time was not just a convenience but a symbol of integration into the global commercial system. However, this transition was profoundly colonial. Aumiphin (1994) argues that by popularizing paper money, the BIC held control over the purchasing power of the entire society, turning individual payment behavior into a part of the metropole's extractive network. Consequently, by 1930, a new "social contract" on currency was established: the Vietnamese accepted the banknote as an object carrying supreme value, marking the end of the traditional metallic currency era.

### 5.2. *Modernization Strategies: Semiotics, Liquidity, and Institutional Compulsion*

The success of the Bank of Indochina (BIC) in transforming the payment behaviors of the Vietnamese population was not a natural evolution but the result of a meticulously designed complex strategy. The BIC simultaneously employed psychological, economic, and administrative measures to establish the dominance of paper money.

#### 5.2.1. *The "Visual Trust" Strategy: Monetary Aesthetics and Semiotics*

The BIC's primary strategy was to overcome cultural barriers through monetary aesthetics. According to Rogers (2003), compatibility is a decisive factor in the adoption of an innovation. The BIC designed banknotes not merely as payment certificates but as syncretic works of art. Pham Thang (1995) points out that incorporating indigenous symbols such as dragons, rice stalks, and Oriental deities onto the banknotes was a deliberate effort to create familiarity and diminish the "alien" nature of colonial currency.

Furthermore, the sophisticated French printing technology of the time served as a message of security. The use of polychrome motifs and intaglio printing techniques functioned not only to deter counterfeiting but also to create an "aura of value" for the banknotes (Duong To Quoc Thai, 2020). According to the Theory of Reasoned Action (Ajzen & Fishbein, 1980), when users' attitudes toward an object (the banknote) become positive through trust in its external appearance, the intention to perform the payment behavior is formed.

### 5.2.2. *The "Absolute Liquidity" Strategy: Guarantee Mechanisms and Convertibility*

While aesthetics created initial trust, liquidity was the factor that retained users. In the late 19th-century Vietnamese mindset, value had to be synonymous with physical substance (gold or silver). Recognizing this, the BIC strictly implemented a "silver standard coverage" strategy. The BIC's founding statutes mandated that the bank maintain a precious metal reserve ratio corresponding to the volume of banknotes issued (Banque de l'Indochine, 1900).

Duong To Quoc Thai (2020) notes that the BIC established a system of "exchange windows" at vital commercial hubs such as Saigon, Haiphong, and Hanoi. Here, the public had the right to exchange banknotes for silver trade dollars (Piastre de Commerce) without any obstacles. This "instant liquidity" policy effectively dismantled the skepticism of the merchant class. As North (1990) argues, when an institution minimizes risks for users, transaction costs decrease, and institutional trust is firmly established. Over time, holding banknotes became more convenient than hoarding heavy silver bars, marking the shift from commodity money preference to fiat money acceptance (Aumiphin, 1994).

### 5.2.3. *The "Institutional Compulsion" Strategy: Taxation and Administrative Power*

The final and decisive strategy was the coordination between the BIC and the colonial administration through coercive power. To create actual demand for paper money, the Governor-General of Indochina issued decrees making tax payments in BIC banknotes mandatory (Gouverneur Général de l'Indochine, 1920). This was a powerful administrative lever that forced even the most remote rural inhabitants to acquire banknotes to fulfill their state obligations.

The payment of salaries for the civil service, military, and infrastructure contractors was also conducted entirely in paper money. Le Dinh Chan's (1966) monetary history records that these public payments created a "forced flow" of banknotes from urban to rural areas, gradually paralyzing the old zinc and copper currency systems. This process aligns perfectly with Institutional Pressure theory, where payment behavior is altered not just by convenience but by an irreversible legal order. According to Aumiphin (1994), tax compulsion transformed BIC banknotes from an "option" into a "necessity," officially modernizing Vietnamese financial behavior along the trajectory of French capital.

## 5.3. Discussion

The transition from metallic currency to paper money in Vietnam under the management of the Bank of Indochina (BIC) was not merely a change in payment instruments but a profound upheaval in financial epistemology.

Understanding this shift requires an analysis of the conflict between intrinsic value and conventional value in the economic psychology of the indigenous population.

### 5.3.1. *The Collapse of Trust in Tangible Matter*

Before BIC banknotes became prevalent, the Vietnamese mindset was inextricably linked to "commodity money." According to Le Dinh Chan (1966), in the folk consciousness, currency had to possess self-contained value, meaning the weight of copper or zinc was the guarantee of purchasing power. This created a "psychological contract" based on tangibility. When the BIC introduced banknotes, they challenged this entire belief system.

Aumiphin (1994) observed that the indigenous people initially perceived banknotes as a "deception" by the French colonizers, as they could find no physical value in a mere slip of paper. However, under the pressure of modernization, trust in tangible matter began to fracture. According to Rogers' (2003) Diffusion of Innovations theory, this was a stage of "cognitive dissonance," where users had to weigh the security of metallic money against the convenience of paper money. The BIC's maintenance of silver reserves and its liquidity commitment served as the psychological bridge that helped the population cross this barrier (Pham Thang, 1995).

### 5.3.2. *Constructing "Institutional Trust" and Conventional Value*

The most significant shift was the replacement of trust in matter with trust in institutions. As Duong To Quoc Thai (2020) pointed out, the BIC did not just issue currency; it issued the "prestige" of the French administration. Banknotes were gradually accepted because the people believed that the "system" behind them would not collapse.

Through North's (1990) lens on institutions, the BIC established an order where paper money became a "fiduciary trust." This process was supported by the context of a developing market economy, where the need for fast and long-distance transactions rendered metallic currency obsolete. This psychological shift reflects a process of "value abstraction": value no longer resided in the holder's hand (currency weight) but in the bank's promise. Ajzen and Fishbein (1980) argued that human behavior changes when individuals perceive benefits from complying with new norms. Accepting BIC banknotes meant that the Vietnamese accepted integration into a more modern economic structure, albeit a forced modernization (Aumiphin, 1994).

### 5.3.3. *Social Consequences: From Hoarding to Investment*

The psychological shift from commodity to fiat money also brought about changes in accumulation behavior.

The habit of "burying jars of silver" was gradually replaced by holding banknotes and saving. Duong To Quoc Thai (2020) recorded an increase in deposits at BIC branches as evidence that the public had begun to trust ledger figures more than buried metal.

However, this transition also created a new psychological vulnerability. When inflation occurred or silver prices fluctuated sharply (such as the post-WWI period), trust in fiat money was easily shaken, leading to bank runs and demands to convert paper back to metallic silver (Pham Thang, 1995). This indicates that the "commodity preference" remained latent and was only suppressed by the efficiency of the colonial administrative apparatus. In summary, the psychological shift facilitated by the BIC between 1875 and 1930 laid the foundation for modern financial thinking in Vietnam, transforming currency from a tangible item into a semiotic instrument of power and trust (Zelizer, 1994).

## VI. CONCLUSION

The study of the Bank of Indochina's (BIC) role during the 1875–1930 period reveals a complex process of financial behavioral modernization deeply embedded within colonial power structures. By analyzing the transition from commodity money to fiat money, this article asserts that the BIC functioned not merely as a currency-issuing institution but as the chief architect in reshaping the economic psychology of the Vietnamese population. The BIC's success in popularizing banknotes to replace metallic currency resulted from an integrated strategy that skillfully combined the symbolic power of monetary aesthetics, an absolute commitment to liquidity, and the coercive authority of the colonial taxation system.

The research findings indicate that the establishment of "institutional trust" was the decisive factor in dismantling the dominance of commodity money. By creating a financial ecosystem where banknotes were backed by the prestige of the French metropole and immediate exchangeability, the BIC motivated the indigenous population to abandon metallic hoarding and join the modern flow of capital. However, this modernization was not entirely voluntary; rather, it was a process of "forced modernization," where financial instruments were utilized to optimize colonial extraction. This paper fills a research gap by employing the diffusion of innovations theory to explain behavioral transformation from a micro perspective, rather than focusing solely on macroeconomic indicators as previous studies have done.

In conclusion, the legacy of the Bank of Indochina laid the foundation for the modern financial system in Vietnam, establishing standards for monetary governance and user behavior, many of which remain influential. In

today's digital economy era, the lessons on building public trust during the transition from cash-based payments to digital entities continue to hold profound contemporary relevance. This study paves the way for future research exploring the interaction between behavioral psychology and financial history in developing nations.

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