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SPECIAL CURRENCY SYSTEM OF CHINA

A Study on the "Wei Wah" System in Shanghai

By SHOTARO KOJIMA

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CHAPTER 1. PREFACE

The "Wei Wah" system reveals some special economic characteristics peculiar to the Chinese and at the same time, in my opinion, it presents one of the most advanced forms of currency.

"Wei Wah" is the Shanghai colloquial pronunciation of 匯割, the standard Chinese pronunciation of which is "Hui Hua". "Wei Wah" originally meant "bills clearing" as is seen in the clearing house transactions. It means, however, also the draft itself as used in the "Wei Wah" system, which, to be correct, should be called the "Wei Wah draft" (匯割票據).

Some explanation of the Chinese monetary institutes will be needed before entering into the "Wei Wah" system. In China there are three types of banks. The first is the native born monetary institute (Chien Chuang 錢莊) owned and financed by the Chinese and managed in their own traditional way. The Europeans call it the "native bank". The second is also owned and financed by the Chinese, but managed by the European system and is usually of a larger

scale than the former. This is simply called the "bank". The third is the foreign bank founded on foreign capital. What I intend to explain here is mostly concerned with the native bank and the bank, but very little with the foreign bank.

The "Wei Wah" draft was formerly used mainly by the native bank and the "Wei Wah" system itself is said to have originated from the commercial usage of financial transactions some 60 to 70 years ago in Shanghai.

Its prominent feature is that settlement takes the form of set-off through exchange, and in this respect it bears a striking resemblance to the clearing of bills as practised in advanced countries. Wei Wah has gone through many vicissitudes since about the time of the outbreak of the China Affair and it is now entirely detached from legal tender (法幣), the cash currency. As, moreover, foreign currency cannot be acquired with it, it has come to assume the nature of domestic currency, pure and simple. It circulates side by side with legal tender which may be used for acquiring foreign currency.

Wei Wah is, therefore, a kind of deposit or book currency and not cash currency like legal tender. The term "Wei Wah", however, recently has acquired a few somewhat different meanings. For instance, firstly as already stated, its original meaning is "bill clearing", and secondly it is understood to mean the draft itself as used in the "Wei Wah" system. Thirdly, it is understood to mean the "Wei Wah system" itself, in which case it means rather a credit system carried on by "Wei Wah" draft than the mechanical process of the clearing system; and lastly, it is understood to mean especially the fund used for clearing created by mutual indebtedness through the "Wei Wah" draft. The fact that the word "Wei Wah" has such varied meanings tells us nothing but the radical and complicated development of this monetary system in recent years.

The "Wei Wah" as a currency is a sort of "money in ideal" which subsists on mutual understanding between

the giver of credit and its receiver; it depends on mutual indebtedness. Besides, it has a peculiarity in the fact that it is now entirely dissociated from cash currency, the concrete money. In these respects, it may be said to represent a monetary form in a highly developed stage.

Drafts, bills and cheques drawn by the banks and native banks, stamped as "Bankers' Wei Wah", are inconvertible into legal tender, viz. cash currency, as will be explained afterwards. Deposits made in these "Bankers' Wei Wah" are to be called "Wei Wah deposits" and treated separately from deposits made in legal tender, being only withdrawn with "Bankers' Wei Wah". We may, therefore, consider the monetary circulation of Shanghai as divided into two parallel, never interchangeable circulating spheres, one of which is that of cash, now composed exclusively of paper money, having access to foreign currencies, and the other is that of the "Wei Wah", having no access to foreign exchange. In Japan and in most of the economically developed countries, there are free interchange of cash and deposit currency. Not only can we get cheques cashed but we can withdraw in bills or cheques deposits made in cash and, similarly, deposits made in bills or cheques can be withdrawn in cash. The two types of currency, namely, cash and deposit, mutually interchanging, make only one and the same sphere of circulation. This is a phenomenon commonly observed in economically advanced countries today. The Chinese currency circulation in Shanghai greatly differs in this respect as stated above. This should be said to be one of the special characteristics of the Chinese monetary system.

In order to explain the characteristics of Chinese monetary system from this angle, I will first analyse the character of Wei Wah as one of the developed forms of money and then try to show how the monetary system in Shanghai operates with two different and uninterchangeable spheres of circulation — one sphere for cash currency and the other for deposit currency.

CHAPTER 2. WEI WAH AS A MOST DEVELOPED FORM OF MONEY

The history of the development of money shows that whereas money was originally visualized in concrete substance, it has been gradually passing from material substance into something abstract and ideal. This does not, of course, mean that there has been a change in the essential character of money ; it simply means that the form in which it is expressed is changing from what is concrete into what is abstract. To express it in terms of jurisprudence, money is passing from what is expressive of property to what is expressive of claim. Viewed in this light, Wei Wah, a special currency in Shanghai, may be classed among the most advanced forms of money. My study of Wei Wah is based on this point of view.

Not only in the ancient times when shells, cereals, gold dust, cloth, etc. were used as money but in the days when gold and silver were adopted as the standard currency, general purchasing power, which denotes the essential character of money, was in perfect accord with the exchangeability (which, after all, means purchasing power) which the substance that constituted the form of money possessed for other things. It was for this reason that the general public looked upon this substance as money itself. Accordingly, the possession of money is recognized as such because of the ownership of said substance.

As commercial transaction could not be carried on smoothly with the standard currency only, it became necessary to have subsidiary coins. Now, as the material value of the substance constituting subsidiary currency was set much lower than its nominal money value for reasons of fluctuation in parity between the metal constituting it and the metal of which the standard money is constituted, disharmony occurred, in point of value, between the essential character of money and the form which money takes. In other words, it became necessary to accept a difference

between the essential character of money and its form.

Convertible paper money or convertible bank notes put this distinction in a clearer light; they show most clearly that money is passing from what represents property to what embodies claim. It was because they apprehended this distinction that early students of money, as, for example, W. Stanley Jevons, looked upon paper money and bank notes as representative money, instead of regarding them as money. In inconvertible paper money—controlled currency—, the nominal value of money is so completely divorced from the value of the substance which constitutes it that the distinction between the essential character and the form of money is very obvious. Even the term of representative money cannot rightly be applied to it. The legal interpretation of such money is that it embodies the right to purchase commodities within the limits of the general purchasing power which is denoted by its nominal value.

Deposit currency or book money regarding which cheques or bills are used as a means of transfer is to be said "money in idea", pure and simple. Cheques and bills are not, in this case, the forms of money; they are simply the means of notifying the transfer of general purchasing power, the essential character of money. They are unlike convertible paper money, convertible bank notes and inconvertible paper money which, besides being the means of transferring general purchasing power, are themselves the forms of money. The deposit currency, the "money in idea", does not necessarily require a definite form of document such as cheques or bills as the means of transfer. Any method will do, so long as the fact of transfer can be correctly communicated. For instance, transfer may be notified by telephone, instead of in writing. Such a currency in this state of development is regarded as the most advanced form of money.

Although deposit currency of today is inconvertible into the standard money, it is exchangeable for "cash" such as subsidiary money, convertible paper money, convertible bank

notes or inconvertible paper money; its monetary value is, indeed, dependant on them. If deposit currency ceases to be exchangeable for "cash", that is to say, it is isolated from "cash" and its monetary value ceases to depend upon "cash", and yet functions as currency to the full, it must be said to have attained a higher stage of development as money. Wei Wah in Shanghai has not yet attained this stage of development, but it may well be described as a most modern form of currency, despite the peculiarly Chinese character it wears.

The attribute of money is that one can buy anything with it. That anything can be purchased with it means that it possesses general purchasing power. In political economy, therefore, anything which possesses general purchasing power must be called money.

What, then, is it that invests something with general purchasing power? There are two typical cases for it. One is that this "something" is the object which all people desire to possess, and the other is the firm establishment of social order.

Anything which all people covet, or, in other words, anything which all people desire to possess will gain general purchasing power, for it can be exchanged for all kinds of things which other people possess. That shells, cereals, gold dust and cloth were used as money in uncivilized times is a notable example of this. It was due to the same circumstance that gold and silver were adopted as the standard money.

When social order becomes firmly established, however, it is possible even for a piece of paper (paper money) to gain general purchasing power because of the confidence which the public places in social order. People want to possess money, not for its own sake, but because it can be used as the means of acquiring something else. If one can get from others without any difficulty what one desires, in exchange for something which one possesses, it does not

matter what this "something" is like. In other words, if there comes to exist the state of society in general that people are willing to give, in exchange for "something", anything which one wishes to obtain, this "something" is no other than money.

In the áges in which social order was not yet firmly established, one had to offer to others what they liked in order to get from them what one wished to have. There was no other method to be adopted for the purpose. The thing in exchange for which one can obtain what one likes from anybody else must be what everybody is most eager to possess. That is, general purchasing power, in this case, necessarily lies in the thing itself. However, where social order is firmly established, and where anybody is willing to give anything in exchange for even a piece of paper (paper money) under this social order in which everybody confides, general purchasing power need not lie in the thing itself; social order invests anything with general purchasing power.

That general purchasing power constitutes the essential character of money is true for all times, but the form of money has witnessed frequent changes with the development of social order. Where there was no perfect social order, money naturally took the form of gold, silver or the like. But, whereas the quantity in existence of such things as gold and silver which everybody wants to possess has gradually increased through production, this increase in quantity has been far smaller than the increase in the demand for money resulting from economic development. Inasmuch as economic development was rendered possible by the improvement of social order, the shortage in the supply of money in the shape of gold and silver was made good by improved social order. Subsidiary coins, paper money and bank notes are all moneys which improved social order supplied.

Thus, the firmer social order got established, the further gold and silver receded into the background until they ceased to appear in monetary form on the establishment of social order on a really firm basis. At the initial stage of

development of money, gold and silver formed money because they possessed general purchasing power. It may be said that in those days it was gold or silver that bestowed general purchasing power on money, but as social order becomes firmly established, social order itself invests money with general purchasing power. When this stage is reached, money need not take the concrete form of gold or silver or even a piece of paper; it may very well be something abstract and ideal.

Social order depends on the establishment of the authority of the State. Social order in a modern State generally follows the establishment of the authority of the State. Accordingly, it was generally held that where general purchasing power is bestowed on money by social order, the authority of the State is, in effect, the giver of this purchasing power. In China, however, there are many instances where social order grew up spontaneously within limited areas from the necessity of self-defence, even when the authority of the State was not firmly established and chaos prevailed in society. Indeed, when there is no unified establishment of the authority of the State and there is general disorder, the people living under such conditions are faced by the necessity of creating a sort of social order, if only within small areas, by some method or other, for purposes of self-defence, through a firm combination and close collaboration among themselves. This may be regarded as a product of the law governing the social life of mankind. The rigid commercial morality and usage and various social systems in China are generally the outcome of this law of society.

The Wei Wah system in Shanghai which I propose to deal with here may well be regarded as a kind of monetary system which was brought into being by the Chinese national character as well as the special economic situation in Shanghai, to put it briefly, the imperfect juridical social orders, the weakness of the central governmental power, the powerless financial control of the Central Bank, the highly

advanced international trading business, the urge to prevent cash inflation, the business proficiency and the guild spirit of the Chinese bankers, and the like. This is a system which is not only of great scientific interest but of considerable significance in the study of policy *vis-a-vis* the future development of the currency system, as one which grew up spontaneously in conformity with the peculiar character of society in China.

CHAPTER 3. THE WEI WAH SYSTEM

In a general sense, Wei Wah (匯劃) being the abbreviation of 匯總劃帳 or 匯集劃撥 (something like pooling) means set-off, but when used as an economic term, as has already explained, it means the clearing or settlement of bills. Wei Wah drafts (匯劃票據) are bills to be settled by this means of clearing or settlement, and they are chiefly issued by native banks (錢莊 *Chien Chuang*). Wei Wah drafts are sometimes simply called Wei Wah. It also recently appears that the fund itself transferred by means of the sebills is called Wei Wah.

It is said that Wei Wah drafts came into use in Shanghai about sixty or seventy years ago, that is, in the closing years of the Manchu dynasty. The use of these bills led to the establishment, in Shanghai financial circles, of the Wei Wah system, which is a sort of credit system.

The bills used in China are of three kinds, viz. *hui piao* (匯票), *pen piao* (本票) and *chih piao* (支票). Originally, these were chiefly current among the native banks, but since modern-style banks were established, both banks and native banks have been using them. Of the above-mentioned bills of three kinds, *hui piao* corresponds to bills of exchange, *pen piao* to promissory notes and *chih piao* to cheques. The *pen piao* issued by native banks (*chien chuang*) are known by the name of *chuang piao* (莊票).

Wei Wah drafts denote one classification of these bills, made regardless of their kind, a classification which is made

according to the manner of their being cashed. They are in contradistinction to *Hwa Tou* drafts (劃頭票據). Whereas *Hwa Tou* drafts are cashed on maturity (當日收付), *Wei Wah* drafts are merely cleared on maturity. *Wei Wah* drafts used to be cashed, if so desired by the bearer, on the day following maturity (隔日付現), but they have now become drafts which are not paid in cash (不能收現).

Although *Wei Wah* drafts are chiefly settled through exchange, they are merely cleared on maturity. They were formerly paid in cash, if necessary, on the day following maturity, but this practice has ceased, due to frequent revisions made of the system. It is chiefly with these *Wei Wah* drafts which I propose to deal in this article.

Now, the *Wei Wah* system, under which these drafts are cleared, is similar to the clearing system adopted in many other countries in that it has trebled functions. These functions are (1) exchange for the settlement of *chih piao* (cheques) which are drawn by customers of banks or native banks on their deposits, (2) exchange for the settlement of *pen piao* and *chuang piao* which banks or native banks draw upon themselves, and (3) the creation of settlement funds at the central clearing organ and the settlement of the clearing-house balance of the above-mentioned two forms of transaction with these funds. The one point of difference is that whereas, in the countries where banking business is well developed, clearing of cheques drawn by depositors forms the main part of the business, in China, the main part of business consists in the clearing of drafts drawn by banks and native banks.

CHAPTER 4. THREE KINDS OF DEPOSITS IN SHANGHAI

An explanation about deposits is necessary, if *Wei Wah* as it operates today is to be clearly understood. Apart from deposits in foreign banks, those in Chinese banks in Shanghai may be classified into (1) *fapi* (法幣 legal tender) deposits, (2)

restricted deposits and (3) Wei Wah deposits. *Fapi* (Legal tender) deposits are those which can freely be withdrawn in legal tender which is cash in China, while restricted deposits are those which cannot be withdrawn in legal tender in excess of certain limits, the amounts beyond these limits being paid in Wei Wah. Wei Wah deposits are those which are made in Wei Wah and are to be withdrawn in Wei Wah only, and not in cash at all. This differential treatment of deposits is traceable to the restrictions placed in 1937 on the withdrawal of deposits—the first moratorium—and further restrictions set on the withdrawal of deposits in 1939—the second moratorium.

I. *Fapi* (Legal tender) deposits consist of (a) deposits in banks and native banks and (b) those in the central organ of clearing.

(a) *Fapi* (Legal tender) deposits in banks and native banks are those deposited by merchants and ordinary citizens in *Fapi* (legal tender) after June 22nd, 1939. Deposits of this kind can be withdrawn in *Fapi* (legal tender) at will and in any amount.

On June 21st, 1939, the Finance Department of the Chungking Government telegraphically notified the banks and native banks in Shanghai of the enforcement of the new regulations for the stabilization of the money market (新安定金融辦法). Under these regulations, it was provided that "from June 22nd, the withdrawal of deposits—other than for meeting payrolls and official requirements—shall be limited to \$500 in cash per person per week. Any amounts over and above \$500 shall be paid in "Wei Wah" which is to circulate only as a medium between banks." Thus, restrictions were placed, as from June 22nd, 1939, on the withdrawal of deposits, which had formerly been withdrawn freely in legal tender.

The Shanghai Bankers Association (上海銀行業同業公會) and the Shanghai Native Banks Association (上海錢業同業公會) held conferences to discuss matters relative to the operation of business in accordance with the above-mentioned telegraphic

instructions, as the result of which six items were fixed on June 22nd for the operation of the new regulations. One of these items laid down that deposits made in *Fapi* (legal tender) after June 22nd should be excluded from the application of the restrictive regulations. The deposits falling under this category are the legal tender deposits here mentioned.

(b) The *Fapi* (legal tender) deposits in the central organ of exchange are the legal tender deposits which banks and native banks keep with the Joint Reserve Board of the Shanghai Bankers Association (上海銀行業同業公會聯合準備委員會) and the Reserve Board of the Native Bankers Association (上海錢業準備庫) as funds for the settlement of the balance of clearing. These deposits are of two kinds, namely (1) the legal tender deposits which were from the beginning intended as the funds for the settlement of the balance of clearing, and (2) those which were converted from Wei Wah deposits into legal tender deposits under the regulations governing the adjustment of bankers' Wei Wah accounts (安定市面辦法), which were laid down by the Bankers Association and the Native Bankers Association on June 25th, 1939.

These regulations consist of four articles. Articles 1 and 2 provide for the following methods of transaction:—

1. Ninety-five per cent. of the credit balance of the Wei Wah deposits placed by banks, native banks and other financial institutions in the Joint Reserve Board of the Shanghai Bankers Association and of the Shanghai Native Bankers Association which stands at a total of \$22,000,000 as on June 30th, 1939, shall be allowed to be converted into legal tender notes by the respective Joint Reserve Boards.

2. The amount of the legal tender notes to be withdrawn by means of the conversion allowed in the above-mentioned Regulation 1 shall be payable by weekly instalments within a period of twelve weeks beginning July 4th, 1939. The maximum to be allowed to be withdrawn by one depositor per week shall not exceed one-twelfth of the total amount withdrawable. In the case of the depositor whose credit balance stands below \$10,000 and who has to withdraw in

spite of the time limit set above in order to meet the withdrawals by his own depositors, the Joint Reserve Board concerned shall examine the case and make such payments as in its discretion deems warranted.

The legal tender deposits in the central organs of clearing consist of the legal tender which was withdrawn from the Wei Wah deposits in weekly instalments within a period of twelve weeks and those which have always been legal tender deposits. These are used for the settlement of the balance of clearing where the deposits to be paid in legal tender, as provided for in Regulation 1, are withdrawn by *chih piao* (cheque).

II. The restricted deposits also consist of (A) Restricted deposits under the Regulation of 1939, and (B) Restricted deposits under the Regulation of 1937. Both of them are the deposits in the banks and native banks and not in the central organ of clearing.

(a) The restricted deposits under the new regulations for the stabilization of the money market (新安定金融辦法), enacted in 1939. As I have already mentioned, under these regulations, the deposits which merchants and ordinary citizens held in banks and native banks as legal tender deposits before June 22nd, 1939, were converted into restricted deposits after that date, for it is stipulated that, as from June 22nd, the withdrawal of deposits—other than for meeting payrolls and official requirements—should be limited to \$500 in cash per person per week and that any amounts over and above \$500 should be paid in Wei Wah which is to circulate only as a medium among banks and native banks.

(b) The restricted deposits under the emergency regulations for the stabilization of the money market (非常時期安定金融辦法), enacted in 1937. It was not under the regulations for the stabilization of the money market of 1939 only that restrictions were imposed on the payment of deposits in legal tender. The emergency regulations for the stabilization of the money market enacted on August 15th, 1937, also

imposed the following restrictions :

“ As from August 16th, each and any depositor in need of legal tender may draw on his current account at his bank or native bank only to the extent of 5% of the actual balance of his deposit in each account per week, provided, however, the sum drawn does not exceed \$150 per week. Factories, companies, etc. in need of legal tender for payment of salaries, wages and expenses entailed by military requirements may make special arrangements with the banks concerned. Fixed deposits pending maturity may not be withdrawn at will. Any fixed deposit in maturity and not subject to renewal as such shall be converted into a current account at the same bank, or native bank and shall be dealt with as provided in Article 1.”

As, under such restrictions on the withdrawals of deposits, the money market of Shanghai was certain to become entirely paralyzed, the Bankers Association and the Native Bankers Association drafted complementary rules and secured official sanction for them. These rules provide that “ business requirements in excess of the maximum permitted by the Emergency Regulations may be met by drawing Bankers' Wei Wah, but only by depositors having current accounts at the commercial departments of banks and native banks.” This resulted in the creation of restricted deposits. The balance of these restricted deposits held at the time of the enforcement of the new regulations for the stabilization of the money market of 1939, remains subject to these restrictions.

III. Wei Wah deposits may be classified into (a) those in banks and native banks, and (b) those in the central organ of clearing.

(a) Wei Wah deposits in banks and native banks represents those deposits of the above-mentioned two kinds which, after having been withdrawn in Wei Wah, were deposited again. That is to say, they embody the deposits which, after having been withdrawn in Wei Wah, were deposited by the same depositors in other banks or native

banks, and those which were deposited by others to whom the Wei Wah money thus withdrawn had been paid or delivered. These deposits cannot be withdrawn in cash (*fapi*) in any amounts, but only in Wei Wah drafts.

(b) The Wei Wah deposits in the central organ of clearing are the Wei Wah deposits created under the regulations governing the adjustment of Bankers' Wei Wah drawn up by the Joint Reserve Board of the Bankers Association and the Native Bankers Association (同業匯劃領用辦法) on June 25th, 1939, to meet the situation arising out of the enforcement of the new regulations for the stabilization of the money market (新安定金融辦法) dated June 21st of the same year, which provides among other things that "any amounts over and above \$500 shall be paid in Wei Wah which is to circulate only as a medium among banks and native banks." These two Associations agreed that "beginning July 4th, 1939, the Joint Reserve Board shall accept applications from all banks, native banks and other financial institutions for issue of Wei Wah currency against adequate security, detailed regulations governing such issue to be formulated separately (安定市面辦法三)." Thus, the Joint Reserve Board started business on July 4th, accepting applications from all banks, native banks and other financial institutions for issue of Wei Wah currency against adequate security.

Detailed regulations in this connection were drawn up (上海銀行業同業公會聯合準備委員會同業匯劃領用辦法) and put into force. Under this system, the two central organs of clearing bills for banks and native banks—the Joint Reserve Board of the Bankers Association and the Reserve Board of the Native Bankers Association—were unified and the business of clearing bills was taken over by the former with which both banks and native banks came to possess the deposits to be drawn upon for the settlement of the balance of clearing.

Banks and native banks can obtain funds from the Joint Reserve Board of the Shanghai Bankers Association against certain kinds of property offered as security. The securities offered are valued by the Assessment Committee of the

Board and "Bankers' Wei Wah" (同業匯劃) to the maximum amount of 70 per cent. of the assessed value are granted. The Bankers' Wei Wah thus obtained are deposited by the banks and native banks concerned with the Joint Reserve Board on current account, receiving from the Board a cheque-book (支票簿) for use in drawing money. To obtain Bankers' Wei Wah in this case simply means the depositing on current account of the funds advanced by the Board against security. It means the creation of funds through mutual understanding between the Board and each bank or native bank.

The current deposits thus created are the Wei Wah deposits under discussion. They are used by banks and native banks as the fund for settling the Wei Wah drafts issued by themselves and the Wei Wah drawn upon by their customers. That is to say, the balance of these accounts is settled by the transfer of this fund.

As another kind of Wei Wah deposits in the central organ of exchange, there also existed for a period of twelve weeks following July 4th, 1939, the portion of those Wei Wah deposits still awaiting conversion into legal tender under the regulations governing the adjustment of bankers' Wei Wah accounts (安定市面辦法), enacted under date of June 30th, 1939, but as this conversion has already been completed, Wei Wah deposits of this kind do not exist in the central organ of exchange any longer.

CHAPTER 5. THE ROLE OF *CHIH PIAO* (CHEQUE) IN THE MONEY MARKET

The nature of the deposits in the Chinese banks in Shanghai is such as I have just described. The Wei Wah system came into being in connection with the settlement of *piao chu* (bills and cheques) drawn against these deposits.

As already noted, the Wei Wah system has three-fold functions. First, it is concerned with exchange for the settlement of the cheques drawn by merchants or ordinary

depositors. Secondly, it is concerned with exchange for the settlement of "Bankers' Wei Wah" (interbank Wei Wah) drawn by banks and native banks. Lastly, it is concerned with the fund created through the Wei Wah drafts for ensuring and facilitating settlement through exchange and the use of this fund for the transfer of the balance of clearing.

The exchange for the settlement of cheques drawn by merchants and ordinary depositors is conducted on the basis of the drawers' deposits in the banks or native banks.

In modern banks in China—in Shanghai especially—as is the case with modern banks in all other countries, current deposits are drawn by cheque. Accordingly, cheques for *fapi* (legal tender) deposits are paid in *fapi*. If this money is again deposited, it becomes a *fapi* deposit. As native banks, like modern banks, handle current deposit business, such deposits can also be withdrawn by cheque. The practice of exchange for the settlement of cheques developed in such circumstances.

Although banks and native banks in China handle the deposit business, the deposits which they handle are almost exclusively so-called primary deposits, that is, deposits in cash. Of creative deposits there is practically none. That is to say, creative deposits, by which are meant the advances from banks deposited by borrowers, represent only an insignificant portion of the total amount of deposits. This is one distinguished feature of Chinese banking.

Such being the general character of the deposits in banks and native banks, it is not in exactly the same way as in the economically-advanced countries that cheques are used for the withdrawal of deposits. Where cheques are used, they simply serve the purpose of transferring A's primary deposit to B's. If, where a bank makes advances and the borrower's account is credited with the amount advanced, a cheque drawn by the borrower on this deposit is deposited by the payee in the bank, this cheque will be a medium for the transfer of creative deposits or a means of bank currency,

but cheques in China have not yet attained the status of fulfilling such functions. If advances are made by banks in anything other than cash, it is by bills drawn by banks or native banks upon themselves, to which reference will be made soon. The second-mentioned function of the Wei Wah system is concerned with the settlement of such bills and this constitutes the main part of the clearing business.

In the case of creative deposits, they always and invariably have bank advances of the same amount to set off against them. Although the borrowers of these loans always remain the same, creative deposits change hands from time to time. Cheques act as the medium by which this change of ownership is effected. In the countries economically advanced, cheques act chiefly as an instrument for the transfer of creative deposits rather than for the transfer of primary deposits. They do duty as currency, as legal tender does. As currency in the field of production, they rather play the predominant part. *Chih piao* (cheques) have not reached this stage of development yet.

The functions of *chih piao* in China are such as has been described above. The exchange of *chih piao*, as is done under the Wei Wah system, is of much less financial significance than the exchange of cheques in the advanced countries. The character of *chih piao* in the money market is also different from that of cheques in other countries.

CHAPTER 6. PART PLAYED BY "BANKERS' WEI WAH" IN THE MONEY MARKET

Let me now deal with the "Bankers' Wei Wah" transferable exclusively between banks, with which is concerned the second function of the present-day Wei Wah system. The name of the "Bankers' Wei Wah" had their origin in the Supplementary Regulations to the Emergency Regulations (安定金融補充辦法) enacted in 1937, in which it is mentioned that every drafts drawn by banks' and native banks' shall be stamped "Bankers' Wei Wah" (interbank transfer money).

Before these Regulations Were enacted the drafts drawn by banks and native banks were simply called "Wei Wah". But by these Regulations every draft is not only to be stamped "Bankers' Wei Wah" but also made transferable among Shanghai banks and is not to be exchanged for ether legal tender or foreign currency.

Modern-style banks are of comparatively recent growth in China, where *chien chuang* (native banks) have been the main banking organs from old times. Native banks have accepted deposits and made loans; and issued *chuang piao* (莊票 promissory notes issued by native banks) in paying deposits or in accommodating funds. These notes are issued by native banks on the strength of their credit and they circulate among merchants. At the dates due for payment, they are cleared through exchange at the Wei Wah Central Board (匯劃總會). When we talk of Wei Wah drafts, these *chuang piao* are chiefly meant. If these drafts are presented for payment in cash, they may be cashed on the day following maturity (隔日付現). This was the prominent feature of these drafts.

With regard to the method of settling Wei Wah notes, Mr. Wang Feng-Shih makes the following statement:—¹⁾

"Wei Wah drafts between Shanghai native banks (*chien chuang*) are settled at the Wei Wah Central Board, clearing being done by means of *kung tan* (公單 transfer slip)²⁾. If the bills which one native bank holds on another exceed \$500 in amount, it sends its clerk to the native bank on which these bills are drawn, some time between 3 p.m. and about 4 p.m., and get these drafts exchanged for what is called *kung tan*. Between 6 p.m. and 7 p.m., each native bank takes these *kung tan* to the Wei Wah Central Board to clear them. Each native bank learns the amount receivable or the amount payable for the day by the balance of

1) 王逢士, 上海匯劃制度之研究, 財政評論, 第三卷, 第二期 p. 35

2) As to the English equivalent refer to:—Y. C. Tsui, Commercial Papers of Shanghai and the Clearing System, The Central Bank of China Bulletin, Vol. II, No. 3, 29.

the *kung tan* which it has issued and those which it has received. When the amount it has to pay exceeds the amount which it is to receive, it borrows money from the market (拆進), while, on the other hand, if it receives more than it pays, it lends the balance to the market (拆出). This borrowing is called *chai piao* (拆票). After this procedure of borrowing has been gone through, settlement is effected (軋直). For the amount not settled, the Central Board issues *hua tiao* (劃條 notice) and notifies both native banks concerned so that settlement may be made between them. In this case, the Central Board takes no responsibility for settlement. For the fractional amounts under \$500, the native bank concerned issue petty *kung tan* (小公單), which are settled at the Reserve Board of the native Bankers Association."

In the clearing of bills in Japan, all clearing banks effect settlement collectively. One bank fixes the balance in favour or against all other banks and settles this balance through the transfer of the account which it keeps at the Bank of Japan. In the clearing of Wei Wah between native banks, however, each native bank fixes the balance in favour or against, between itself and every other native banks, and where it has a balance to pay, it must negotiate with the other party for the loan of the amount involved. If consent has been obtained, the requisite amount is borrowed in *kung tan*. After this procedure has been gone through, drafts are formally cleared. Where this has been done properly, there will occur no balance of clearing, in so far as the form is concerned. If not, there will be created a balance and in such a case the Central Board issues *hua tiao* and notifies both native banks concerned of this fact. On receipt of this notification, the debtor native bank must pay the balance either in cash or by raising the fund for settlement from some native bank other than the one directly concerned.

The Wei Wah system in its original form was such as has been described, but it underwent two big revisions to meet the financial panic which overtook the Shanghai market

at the time of the first Shanghai Affair in 1932 (that is, the year preceding the abolition of the tael in favour of the yuan as the unit of Chinese currency). One was that Wei Wah drafts were made inconvertible into cash. The other revision is that whereas the Wei Wah had previously been current chiefly among native banks, modern-style banks also started the clearing of Wei Wah, though through a separate organ. The collective method of settlement was adopted in clearing drafts, the balance being settled with the current deposits kept at the central organ of clearing. This method has recently been adopted by the native banks also.

These came from the facts that, at the outbreak of the Shanghai Affair on January 28th, 1932, all Chinese banking organs suspended business and after due consultations among themselves as to the measures to be taken in coping with the financial panic, they were re-opened for business on February 4th. Their measures to deal with the situation were defined in the so-called Maintenance Regulations consisting of three Articles (維持辦法三條), and adopted jointly by the Shanghai Bankers Association and the Shanghai Native Bankers Association. These regulations provide that the drafts, long-term or short-term, drawn by Chinese banks and native banks should all be stamped "Bankers' Wei Wah transferable among Shanghai banks only," that they should be settled on maturity through exchange among banks, instead of by cash payments, and that cheques drawn by depositors should be handled similarly, it also having been arranged that any drafts from far-off districts, collection on which was impossible for want of communications facilities, should be given back to the drawers. In this way, all drafts were turned into Wei Wah transferable between banks only. They have thus become inconvertible into cash, though they can be deposited in the bank, either directly or through the process of clearing, or they can be used in payment of the bank's advances.

As I have already mentioned, Wei Wah drafts were originally in circulation chiefly among native banks, but as

modern Chinese banks adopted the revised Wei Wah system, they came to find circulation among the banks also. This does not mean, however, that a unified clearing organization was formed for both banks and native banks. Drafts for native banks were cleared at the Wei Wah General Board (匯劃總會) of the Native Bankers Association (錢業同業公會), while banks cleared drafts among themselves through a clearing house (票據交換所) which they established under the control of the Joint Reserve Board of the Bankers Association (上海銀行業同業公會聯合準備委員會).

Bills between banks and native banks are cleared between the Joint Reserve Board of the Native Bankers Association (上海錢業聯合準備庫) and the Joint Reserve Board of the Bankers Association. "When banks have received drafts drawn on native banks, they deposit them with the Joint Reserve Board of Bankers Association, so that they can get these drafts paid by the Native Bankers concerned through it. In meeting these drafts, native banks draw *chih piao* (cheques) on the Joint Reserve Board of the Native Bankers Association. On the other hand, where native banks hold drafts on banks, the banks concerned issue the notes of the Joint Reserve Board of the Bankers Association, and these notes are deposited by the native bank with the Reserve Board of the Native Bankers Association. These are then cleared towards evening every day by the Joint Reserve Board of the Bankers Association and the Joint Reserve Board of the Native Bankers Association."

Thus, while Wei Wah drafts were rendered inconvertible into cash, both banks and native banks came into one clearing system. But since the clearing business is conducted by banks and native banks departmentally, it became necessary to provide the method of settling the balance of clearing between these. To this end, both the Joint Reserve Board of the Shanghai Bankers Association and the Joint Reserve Board of Shanghai Native Bankers Association made their respective member-banks or native banks offer certain kinds of property as securities in order to provide reserve

assets.

The reserve assets of banks comprise (1) land and buildings located within the International Settlement and the French Concession in Shanghai, (2) immediately marketable goods, (3) share-certificates and debentures with market value in London and New York or deposits abroad, (4) Gold coins, gold bars or redeemable gold notes, and (5) properties other than those stipulated above, if approved by the Executive Committee. The Committee appraises these securities offered by banks and issue *tancheng* (單證) equivalent in value to 70 per cent. of the assessed value. These *tancheng* are of two kinds, namely, *kungtan* (公單 Joint Reserve Notes) and *kungkucheng* (公庫證 Joint Reserve Certificates), and these are delivered in equal proportions.¹⁾

Kungkucheng are intended for security reserve and are therefore nothing but deposit receipts, but *kungtan* are chiefly used for the settlement of the balance of clearing. *Kungtan* can also be used by banks in making advances, and in that case they circulate in the market. If banks require cash, they can obtain it from the Committee in exchange for them.

The reserve assets of native banks consist of (1) immediately marketable goods and warehous certificates, (2) lands and buildings with market value in urban districts, (3) gold coins and gold bars, (4) silver bars and silver *yuan*, and (5) negotiable instruments. For these securities, custody certificates (保管收條) are issued for the assessed amounts, and on the basis of these securities, the balance of clearing is settled.

The above is an epitome of the Wei Wah system as it operated prior to the outbreak of the China Affair. When, in 1937, the North China Affair spread to Shanghai and a

1) As to these English equivalents refer to "the Shanghai Bankers' Joint Reserve Boards" by Chen Shao-tan and Chang Shan-pao, The Central Bank of China Bulletin, Vol. III, No. 1.

panic overtook the Shanghai money market again, there developed a tendency for currency to be hoarded or be used for the purpose of purchasing foreign currency because of the flight of capital abroad, this causing a dearth of money. In such circumstances, some Chinese banks were obliged to suspend payment, and runs on banks increased. Hereupon, the National Government put into force the Emergency Regulations for the stabilization of the money market (非常時期安定金融辦法). This led to a second revision of the Wei Wah system.

The Emergency Regulations then issued are what is popularly known as the first moratorium, as the Supplementary Regulations for the stabilization of the money market (新安定金融辦法), issued in 1939, is called the second moratorium. The Emergency Regulations consist of seven Articles, and the main aim of the legislation was to restrict the withdrawal of bank deposits. As was already explained, the amount to be withdrawn by each depositor was restricted to five per cent. per week of the actual balance of his deposit, the maximum amount to be withdrawn being fixed at \$150 in legal tender.

Legal tender was the only cash currency in circulation in the market at the time of the first moratorium, as the *tael* had already been replaced by the *yuan* as the monetary unit (1932) and the currency reform had been carried out in the adoption of the State ownership of silver, and in the initiation of the legal tender system (1935). As these restrictions were put on the withdrawal of deposits at a time when this legal tender had largely been withdrawn from circulation for the purpose of hoarding, or for the acquisition of foreign exchange, due to the financial panic, the Shanghai money market became so tight that commercial transactions as well as settlement of accounts were rendered well-nigh impossible.

In order to meet this situation, the Shanghai Bankers Association and the Shanghai Native Bankers Association drafted the Supplementary Regulations to the Emergency

Regulations (安定金融補充辦法) and these Supplementary Regulations were put into force with the sanction of the Finance Department of the Government.

The Supplementary Regulations consist of four Articles providing for exceptions to the restrictions imposed on the withdrawal of deposits. This exceptional treatment is accorded current accounts at the commercial departments of banks and native banks where withdrawals are required to meet commercial needs. Such deposits can be withdrawn in excess of the maximum amount fixed by the Emergency Regulations, provided they are withdrawn in Wei Wah money, not in legal tender (Article 3). It is required that every and all drafts drawn by banks and native banks should be stamped "Bankers' Wei Wah" to show that these drafts are transferable among Shanghai banks and native banks only, and not to be exchanged for either legal tender or foreign currency (Article 1). Banks' and native banks' drafts and depositors' cheques dated prior to August 12th, 1937, are all regarded as "Bankers' Wai Wah" and handled accordingly (Article 2). It is further provided that new deposits, whether initial or paid into existing accounts, should be recorded as "legal tender" or Wei Wah", according to the form of payment made and be withdrawn only in the same species (Article 3, 4).

Under the measure devised to relieve the panic at the time of the first Shanghai Affair, Wei Wah was deprived of its attribute of drafts "which are payable in cash on the day following date due" and were turned into drafts "not payable in cash." Under the first moratorium referred to, these "uncashable Wei Wah" came into use in meeting the withdrawal of deposits because restrictions were put on the withdrawal of deposits in cash. With this practice officially acknowledged in the Supplementary Regulations to the Emergency Regulations (安定金融補充辦法), it has been definitely laid down that Wei Wah should be used only where deposits are paid by banks, where people make deposits, where banks make advances or where these advances are repaid, but that

they should not be converted into cash. As, moreover, it became impossible to purchase foreign currency with them, Wei Wah clearly suffered modifications in their nature as domestic currency.

Wei Wah notes were originally mere documents promising payment in cash, but as the native bank, the issuers, gained increasing credit in the money market, these notes gradually acquired the function of circulating without being asked for payment in cash in the market and of being settled through exchange. In this way, they attained a status of currency standing side by side with cash. But in case of their holders applying for conversion into cash, they could be cashed on the day following date due.

The financial panic at the time of the first Shanghai Affair, however, resulted in an arrangement transforming them into interbank currency incapable of being cashed, while under the first moratorium proclaimed immediately after the outbreak of the second Shanghai Affair, they were officially acknowledged as interbank currency which are not only incapable of being cashed but cannot be used for the purchase of foreign currency. Thus, under the Chinese currency system, there are in circulation side by side legal tender (*fapi*), with which foreign exchange is purchasable and which is in general domestic circulation as cash, and Wei Wah, with which foreign exchange cannot be purchased and which is inconvertible for legal tender.

Wei Wah of the above-mentioned nature are now being used by banks and native banks in paying deposits and in making advances. They are also accepted by them as deposits or in payment of their advances. These drafts are also being cleared between banks or *chien chuang*. Such a financial mechanism constitutes the second function in the Wei Wah system now existing.

The creation of Wei Wah which are inconvertible into cash led to the provision of reserve assets from the necessity of ensuring the settlement of the balance of clearing in the

structure of set-off through exchange. The clearing business can be executed successfully only when the settlement of the balance of clearing can be effected smoothly. The settlement of the balance of clearing was formerly effected through the transfer of cash, but in the present state of the scarcity of cash currency, in which the conversion of Wei Wah into cash is forbidden, this settlement must necessarily be effected with something other than cash. This circumstance gave birth to the creative currency of *tancheng*, to be issued on the basis of the assessed value of securities offered towards reserve assets. That is to say, the monetization of property was realized under the interbank Wei Wah system. What forms the third and last function of the present-day Wei Wah system was brought about in such circumstances.

CHAPTER 7. THE FUNCTION OF LINGYUNG WEI-WAH IN THE MONEY MARKET

The third function of the present-day Wei Wah system is consisted of the provision of the fund used for clearing balance at the central clearing organ and the settlement of the clearing accounts with this fund. The fund in this function is created by the mutual indebtedness between the Joint Reserve Board and the member banks, e.i., the member banks, if they desire, pledging certain securities to the Board in order to receive the necessary fund with the Bankers Wei Wah, which is at the same time deposited at the Board for the purpose of settling the clearing balance. Such granting transactions of the Bankers' Wei Wah to the member banks by the Board is called *lingyung* (領用), so I also shall call in this treatise the Bankers' Wei Wah which is granted to the member banks by the Board the "*lingyung* Wei Wah".

As already explained, the Bankers' Wei Wah is a product of the financial panic at the time of the first Shanghai Affair of 1932. As a remedy for the monetary shortage at that time caused by the fact that the Wei Wah draft was made inconvertible into cash, both the Joint Reserve

Board of the Shanghai Bankers Association and the joint Reserve Board of the Shanghai Native Bankers Association created the reserve assets for clearing purposes with the securities offered by their respective member banks. This was the first step to bring about the third function of the Wei Wah system. The *lingyung* Wei Wah of today represents the reserve assets system in an improved form operated by the federated organization of both the Bankers' and Native Bankers' Associations.

It was the second moratorium which brought *lingyung* Wei Wah into being. On June 21st, 1939, the Finance Department of the Chungking telegraphically notified the banks as well as the native banks in Shanghai of the decision to enforce the new Emergency Regulations for the stabilization of the money market (新安定金融辦法). These Regulations provided for restrictions on the withdrawal of bank deposits. That is to say, the withdrawal of deposits was limited to \$500 in cash per person per week, it being stipulated that any amount in excess of \$500 should be paid in Wei Wah which is to circulate among banks and native banks only.

The second moratorium aimed chiefly at the prevention of the flight of funds from the country. Under the first moratorium, the withdrawal of deposits in cash (the bank-notes of legal tender) was restricted to five per cent of the actual balance per week, the maximum amount to be withdrawn a week being fixed at \$150, and any excess to these restricted amounts should be paid in Wei Wah. Deposits made in cash (legal tender) after that date could be withdrawn in cash without any restriction, however. This led to the establishment of the distinction between Wei Wah deposits and legal tender deposits. The object of this moratorium was to prevent both a decline in the value of legal tender and the flight of capital from the country.

Although the restrictions imposed on the withdrawal of deposits in legal tender could check the heavy withdrawals of legal tender for a time, the accretion of withdrawals of

legal tender within the stipulated limits would, in course of time, result in a gradual decline in the total of Wei Wah deposits, with the corresponding increase in the amount of legal tender deposits, until Wei Wah deposits would cease to exist entirely. Again, the legal tender withdrawn from restricted deposits might be often used for the purchase of foreign currency immediately after withdrawal, or after it was again deposited in the bank, with the possible result that the tendency for the flight of capital and for the decline of the value of legal tender was accentuated.

Furthermore, although Wei Wah became inconvertible into legal tender, it is possible to acquire legal tender with it at a discount (貼現). The practice of discounting for such a purpose developed as soon as Bankers' Wei Wah came into being. The discount rate rose considerably as was witnessed at the time of the first moratorium. The rise in the discount rate induced the inflow of legal tender into Shanghai from the hinterland, and the legal tender which flowed in not only operated to depreciate the value of legal tender in Shanghai but was used for the purchase of foreign currency, the flight of capital out of the country being accentuated in consequence.

Thus, the first moratorium failed of its prime object, though it served to save banks and native banks from the financial panic. The second moratorium of 1939 was rendered necessary in such circumstances. This was quite inevitable in China where the control of foreign exchange is impossible.

In consequence of the enforcement of the second moratorium, both the amount of legal tender in circulation and the amount of legal tender bills naturally witnessed a marked decrease, and the market was flooded with Wei Wah bills which are inconvertible either into legal tender or into foreign currency. This led to a further rise in the Wei Wah discount rate, with the result that various markets in Shanghai had to suspend business temporarily because the settlement of accounts in all transactions was rendered impossible. Even where markets were not closed, very little business

was done. In such circumstances, the new Wei Wah system was introduced as a remedial measure, and what is called *lingyung* Wei Wah was created.

The new Wei Wah system is based on the Regulations governing the adjustment of bankers' Wei Wah accounts (安定市面辦法), drawn up by the Shanghai Bankers Association and the Shanghai Native Bankers Association and put into force on June 25th, 1939. The Regulations consist of four Articles and have two objects. One object is to make such provisions as to enable each bank or native bank to meet the withdrawals by its own depositors of legal tender within the stipulated limits. To this end, it was laid down that 95 per cent. of the credit balance of the Wei Wah deposits placed by banks, native banks and other financial institutions in the Joint Reserve Board of the Shanghai Bankers Association and of the Shanghai Native bankers Association, which then stood at \$ 22,000,000, should be allowed to be converted into legal tender notes by the respective Joint Reserve Boards, it being further stipulated that the amount of the legal tender notes to be withdrawn should be payable by weekly instalments within a period of twelve weeks, with the maximum allowed to be withdrawn per week fixed at one-twelfth of the total amount withdrawable. The other object is to facilitate the clearing of the Wei Wah bills drawn by banks and native banks. That is to say, it is to create a settlement fund. For this purpose, all banks and native banks were made to offer securities to their Reserve Boards so that they can apply to them for the issue of "bankers' Wei Wah notes" against these securities. It was further stipulated that these Regulations should be put into force with the approval of the Joint Meeting of the Bankers Association and the Native Bankers Association.

Under these Regulations, the Joint Reserve Board formulated detailed regulations for the issue of Wei Wah notes, the regulations governing the Wei Wah Reserve Board, etc. (同業匯劃領用辦法, 發行匯劃證簡則, 匯劃準備委員會規則等) Accor-

ding to these rules, the main points of the new Wei Wah system are as follows:—

The banks and native banks affiliated to the Reserve Board of the Bankers Association and the Reserve Board of the Native Bankers Association, which formerly had their funds for the settlement of the clearing balance respectively, offer property of specified kinds to the Joint Reserve Board to create the joint clearing balance settlement funds, so as to have the base of the new Wei Wah system on these funds. The kinds of property to be offered as securities are (1) important commodities, (2) instruments negotiable with public market prices in Shanghai, and (3) real estate properties with rental incomes situated in the International Settlement and the French concession in Shanghai. The negotiable instruments referred to do not include national bonds, however. Nor is legal tender mentioned among the items enumerated.

The property of various kinds thus offered as securities forms the reserve fund for the settlement of bankers' Wei Wah accounts. These securities are placed in the hands of the custody committee of the Reserve Board and they are appraised by the assessment committee. Each bank or native bank which has offered securities is granted bankers' Wei Wah to the maximum amount of 70 per cent. of the assessed value of these securities. This bankers' Wei Wah is kept by each bank or native bank in the Reserve Board as current deposits. Under the Regulations providing for this arrangement, the fund thus deposited in the Reserve Board is called "bankers' Wei Wah" but this must be clearly differentiated from the Wei Wah which are issued by banks and native banks to their depositors or to applicants for loans. For whereas the latter are bills which banks and native banks draw upon themselves and which form the currency in the market, the former chiefly constitutes the fund for the settlement of the clearing balance. I therefore call abridgedly the former "*lingyung* Wei Wah" (領用匯劃) to avoid confusion with the other.

Should the market value of the securities offered by banks and native banks decline and the total amount of the "*lingyung Wei Wah*" granted against these securities be found to exceed 70 per cent. of their market value, the Reserve Board calls upon them to put up additional securities. The banks and native banks pay interest on the amount of *lingyung Wei Wah* secured while they receive interest on its current deposit. For the former the rate was 23 cents for \$1,000 and for the latter the rate was 18 cents at the time of the enforcement of this system. The total amount granted at the start stood at \$50,000,000.

The Reserve Board delivers cheque-books (*chih piao tieh* 支票簿) to the banks and native banks concerned. These cheques (*chih piao* 支票), which are used for the settlement of the clearing balance, correspond to the *kung tan* (公單) which were adopted in 1932.

These cheques are to be drawn by the banks and native banks to clear their balance in the clearing accounts, as the fund for this purpose they deposit 70 per cent. of the securities pledged as already stated.

Banks and native banks, as formerly, use Wei Wah drafts which they draw upon themselves in order to meet the withdrawals of Wei Wah deposits by their depositors and in making loans to their customers. The only difference is that whereas these Wei Wah drafts were formerly printed on white paper, yellow paper is used under the new-Wei Wah system. The Wei Wah drafts drawn by banks and native banks find their way into the hands of other banks and native banks and then are cleared at the Reserve Board. If an adverse clearing balance occurs, the cheques referred to are drawn for the settlement of the balance. These cheques may also be used by the banks and native banks in meeting withdrawals of Wei Wah deposits by their depositors or in making loans to their customers, in lieu of the Wei Wah drafts which they draw upon themselves in such a case, these cheques, after circulating in the market, find their way to the Reserve Board for clearing.

The exchange of bills, as formerly, takes place at the clearing house of the Joint Reserve Board of the Shanghai Bankers Association. But in the case of the native banks, those which are to be exchanged among themselves are cleared at the "Wei Wah General Board", and those which the native banks hold on the banks are presented to the Joint Reserve Board of the Bankers Association by the Joint Reserve Board of the Native Bankers Association as the representative of each of the native banks and cleared at the former office in the same way as the banks' Bills.

Such is the function of *lingyung* Wei Wah as the fund for the settlement of the clearing balance under the new Wei Wah system. What is called "*Wei Wah cheng*" (匯劃證 Wei Wah certificates) was also created under the new Wei Wah system. Under the Wei Wah *Cheng* Regulations (發行匯劃證簡則), these certificates are issued to an amount not exceeding 70 per cent. of the market value of the securities, which are of the same kind as those already mentioned, for use by the banks and native banks concerned. These certificates are of four denominations with different face-values of \$500, \$1,000, \$5,000 and \$10,000. By the issue of these certificates, it is intended that the inconveniences attending the circulation of Wei Wah drafts of any optional amounts should be obviated. These certificates can also be used for the settlement of the clearing balance of Wei Wah cheques (Article 6 of the Regulations), but the object which banks and native banks have chiefly in view is to circulate them in the market in lieu of "Bankers Wei Wah". These certificates have not so far been actually issued. The system is, so to speak, held in readiness for operation against the time of need in the future.

CHAPTER 8. THE FUTURE OF WEI WAH

The future of Wei Wah, which has attained its present state of development, deserves some close attention. It is due to the present China Affair that Wei Wah has become

deposit currency which is completely dissociated from legal tender—cash currency. Wei Wah was first disjoined from cash currency by banks and native banks, as a measure of self-defence, when a financial panic overtook them after the outbreak of the first Shanghai Affair in 1932. By the first moratorium of 1937, enforced after the outbreak of the second Shanghai Affair, Wei Wah were exclusively used in the payment of deposits in excess of certain specified limits, it being laid down that foreign exchange was not purchasable with these drafts. Again, when the second moratorium was proclaimed in Shanghai in 1939, a new Wei Wah system was established in order to increase the funds for clearing purposes. These changes were all due to the exigencies of wartime finance.

Some people therefore are inclined to think that after the conclusion of the China Affair, Wei Wah will regain its former position, that it is paid in cash on the date following maturity. It is, of course, impossible to predict the post-war situation at the present moment, but it seems possible to say that even if the present regulations governing Wei Wah and those providing for the restrictions put on the withdrawal of deposits may be abolished, it will be merely a matter of legislative arrangement. Although, in the legal sense, the present state of dual monetary circulation will then cease to exist and monetary circulation be unified, the usage of transactions with bills fostered during the China Affair will surely result in a far-reaching revision of the former practice of cash payments. Even if the present complete detachment of Wei Wah from cash currency may disappear, the state of dual monetary circulation will remain to a more or less extent.

Wei Wah held a very important position in the Shanghai money market when the new Wei Wah system was established in 1939, but when later legal tender deposits witnessed a marked increase in consequence of the enormous inflow of legal tender funds into the Shanghai market, as Anglo-American influence waned following the outbreak of the

European war, bill transactions against legal tender deposits became dominant in the money market, with the corresponding decline in Wei Wah transactions. But this state of affairs is ascribable to the fact that, unlike the days of the second moratorium, there is now an influx of legal tender funds with a general disinclination to purchase foreign currencies. It is more than probable that as legal tender gradually loses its influence with the progress of the war situation, and the financial straits of Chungking Government cause *fapi* inflation, there will be general inclinations towards purchasing commodities and foreign currencies. Cotton yarn and cotton pieces are chosen for this purpose, and as Pound Sterling and Dollar are not fitted to this end in the present European War situation, Japanese Military certificates are largely demanded. In such a tendency Wei Wah has been fully rehabilitated in China and not only ceased to be quoted at a discount in the market, but recently commands a premium over *fapi* (legal tender).

No matter what the future of Wei Wah may be, the monetary character of Wei Wah as it actually exists today cannot be denied. It is with this monetary character of Wei Wah that I deal in the present article. When its monetary character is clearly grasped, it is to be hoped that the changes which are likely to come over its character in its relation to the vicissitudes of legal tender may be fairly forecast and accordingly an appropriate policy may be devised in regard to the establishment of the future currency system.