ADJUSTMENT OF THE CHINESE BANKING BUSINESS

By KIYOVUKI TOKUNAGA

1. THE POSITION OF THE BANKING BUSINESS

The banking business in China has been circumscribed by various restrictions of an outward nature, but its special handicap consisted in the absence of close relations with industry which might have formed its foundation. If we should take up the central mechanism of financial adjustment, we shall find that there was pressure from the upper part, while the ordinary commercial banks in the lower part were out of the pale of control by this mechanism. Moreover, on the side of this central mechanism, the movement of the special banks had failed to form a close organic constitution. Nor is it necessary to dwell at length on the financial control which has been brought to bear upon the Chinese banking business from the foreign Powers. The inter-relations between the prices of silver and the Chinese financial panics up to the year 1932 was a phenomenon which was an object of worldwide attention. However, the movement of the Chinese banking activities at this period was characterized by much briskness though it was in a malformed condition. After this period the world depression extended to China, and the financial world came to be faced by a tendency of depression. Moreover, there was a series of natural calamities and other unfortunate consequences including the Manchuria Incident and the First Shanghai Affair, all of which gravely affected Chinese national economy. It might be said that under such a period of serious events, the development of the Chinese banking business was impossible. However, in reality, this was not the case. No decline was seen in the banking activities and there was the curious phenomenon of an increase in the number of Chinese banks.
Adjustment of the Chinese Banking Business

In the absence of exact figures indicating such a trend of the Chinese banking business, I shall give the following table of figures to make a rough estimation of the tendency under consideration. The number of newly established banks continued to show yearly increases even after 1932, the number in 1934 being 20. The following table gives a number of figures around these years.\(^1\)

Number of Banks Classified by the Years of Establishment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>1931</td>
<td>15</td>
<td>1936</td>
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<td>1938</td>
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</tr>
<tr>
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</tr>
<tr>
<td>1935</td>
<td>8</td>
<td>1940</td>
<td>11</td>
</tr>
</tbody>
</table>

There are several reasons for the foregoing statistical figures as provided by Chinese papers which I shall enumerate as follows. First, after the year 1932 or the 21st year of the birth of the Chinese Republic, domestic bonds continued to be issued, the amount of loans extended to the Chinese Government by the banks was extremely large and at least one half of the domestic bonds issued were in the hands of the banks. Thus, the banks had a way of profit-making in political investments, and in consequence they escaped falling into depression along with the commercial and industrial decline. Secondly, during several years at this time banking capital had closer relations with the finance of the Central Government, while its connections with the local finance of provincial governments also became increasingly closer. Local finance had its revenue reduced due to agricultural bankruptcy, on one hand; while its expenditure grew larger and larger in connection with the subjugation of bandits, the repairing of highways and the relief of the victims of cala-

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mities. The authorities of provincial governments thus had to go to Shanghai in order to make both ends meet and relieve their financial distress. They also issued local bonds, established highways, built warehouses and in an extreme case divided their current political expenses, and on each occasion they had to go to Shanghai to get their needed funds. Thus, the banks in Shanghai found an outlet for their capital. Thirdly, the fact that the banks were able to make a normal development during several years when the time under study had a close connection with the general decline of the "chien chwang" (⿴⿴⿴) or the native-style banks. The native-style banks began to regain their lost power by the first year of the Chinese Republican Era, 1912. Prior to 1932 these native-style banks had managed their enterprises in cooperation with the banks of foreign nationalities, on one hand, and by utilizing the idle capital of the foreign-style domestic banks; and they proved to have a powerful existence. But after 1932 their decline became manifest in every turn. The native-style banks in the interior regions had much difficulty because of the collapse of agrarian economy and the successive downfall of commerce and industry. The deposits of these banks decreased steadily while the collection of their loans became increasingly difficult. Moreover, after 1932 the foreign-style Chinese banks in Shanghai tightened their purse string against the native-style banks in the interior regions. Thus the latter became hard pressed from both sides; and they had to tread a general road of decline. This decline had its effect on the native-style banks in cities. Thus, the entire native-style banking business was thrown into a whirlpool of panic during several years at that time and their salvation seemed out of the question. Because of this general decline of the native-style banks in the interior regions, the foreign style banks were able to make their normal development in the interior. This state of affairs will become clear when the fact is taken into consideration that prior to the Second Shanghai Affair, the foreign-style banks rapidly established new branches in the
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interior regions and their number increased abruptly.\(^9\)

Now, even supposing that the foregoing reasons given from the Chinese sources prove the fact that the foreign-style Chinese banks did not fall into depression during the period under consideration, these show, with the exception of the banks' replacement of the Chinese native-style banks, that this did not take place in the general trend which these banks from their inherent nature should have travelled. Nor can their replacement of the "chien chwang" be said to have always ushered in a closer relationship between the banking business and industry. Primarily, the progress of the banking business in Chinese economy has been characterized by a malformed condition and because of their malformed transition they lacked a firm foundation. However, this does not mean that because of this the position of the banks became weak. Superficially, the banks were apparently weak in both their business and organization. They possessed the nature of commercial banks in their malformed transition and they were engrossed in the activity of commercial depositing which is not the inherent function of banking organs. Despite these weaknesses and discrepancies, the foreign-style Chinese banks never had a weak existence as financial organs. On the contrary, they maintained a predominant position in Chinese national economy. Moreover, the "chien chwang" and other traditional Chinese financial organs as well as the banks of foreign nationalities seem to have been opposed to the foreign-style banks, but in reality they had close ties with the last named in personal and territorial relations. Moreover, the Government had very close relations with these foreign-style or new banks through its bond policy because of its financial distress. Because of the failure of making a proper adjustment in the banking system, these banks did not tread the same course as commercial banks; but as ordinary commercial banks they occupied a powerful position. Under the China Affair, too, these banks suffered a considerable setback.

but have succeeded in maintaining their integral position. However, the time has arrived when these banks must cast off their malformed character in substance, although they may continue to show their traditional tendencies in their outward appearances.

The position of the Chinese banking business was, in actuality, characterized by firmness which, however, was in a malformed condition in its nature as has been exemplified in the foregoing account. The development of the Chinese banking business was unbalanced, because it had no firm foundation for its business affairs and was devoid of a precise system in its organization. It was the regret of the Chinese themselves that these shortcomings formed shoals for the future development of their banking business. That the Chinese banking business had no firm foundation in its business activities may be referred from the fact that there was no close relationship between finance and industry in its business conditions. However, the fact that the absence of such close relations between finance and industry was no proof for the weak condition of finance, as has been demonstrated in the foregoing examples. The fact that the banking business had no solid system in its organization may not have weakened its position, but at least it made the Chinese banking system a very loose organization. Formally, different classes of banks may have enjoyed their nominal existence indicating their respective missions, but their condition was not normal in the absence of a mechanism with the central bank as its financial centre. However, this did not mean actual weakness in practice.

In the spring of 1935, the former Nationalist Government, prior to its currency reform, had already commenced its financial control and declared its intention to carry out a general adjustment of the financial mechanism in its proposed currency reform. The effects of the currency reform

both in its causes and effects registered an epoch-making stage in the Chinese financial and monetary world. A positive development in the financial mechanism was seen in various respects:—in the consolidation of the central financial mechanism, in the control of local finance and in dealing with ordinary commercial banks. My present article deals with the problems of the ordinary banking business in the territory of China now under construction.

2. THE BASIS OF THE BANKING BUSINESS CONDITION

No exception, of course, should be expected of China's case in the application of the general truth that there should be a close relationship between finance and industry, if the former is to make a sane development. From the early times, the role to be played by Chinese finance had been recognized from the necessity of the economic construction of China. However, neither domestic capital nor foreign capital could meet the demand of Chinese finance in carrying out that role. While in the case of the advance into China of foreign capital, such a sweeping statement is rather irrelevant, there were points worthy of a close scrutiny in the attitude of the Chinese in receiving foreign capital as well as in the character of investments by the foreign Powers. At any rate, great was the significance of the establishment of a closer relationship between finance and industry as a result of the currency reform of China. Although we are thus constrained to recognize the role of the currency reform in this respect, it could not get on its right track by itself alone. I shall take up the tendencies in Chinese economy along this line by citing from Chinese sources.

5) Chen Chia Tsun: Das chinesische Bankwesen, 1939, SS. 98-98.
In China, a measure of success was achieved in the various, branches of economy only after her currency reform, and there appeared signs of prosperity for national economy. In examining the process of the development of Chinese finance, therefore, one should first direct one's study to China's general economic phenomena, particularly the transformation in her industrial world, in order to pass one's unclouded judgment. This is because finance and industry are in inseparable relations. In other words, finance depends on industrial protection, while industrial development is also dependent on the appropriate adjustment of finance. In recent rears in China, the Government by its positive construction program has succeeded in bringing in a gradual prosperity to its commerce and industry, and has thereby ushered in the present form of capitalistic system, which now points to their future course of progress. Therefore, Chinese finance at present no longer forms the relations of general financial transactions and adjustment by means of individual credit. On the contrary, it is destined to assist considerably the development of industry in general and to bring about the accumulation of capital. On the other hand, the credit system will be established by means of this accumulated capital in order to assure its steady operation and thereby assist in introducing the prosperity of Chinese national economy.

Such, indeed, are the views expressed by Chinese writers on economy in that country. In reality, however, although demand for the establishment of a closer relationship between finance and industry in China has been felt for a long period of time, it has remained unrealized. Even after the outbreak of the China Incident, Chinese finance was unable to attain its desired object of maintaining close relations with commerce and industry. During the China Incident, Chinese finance seemed to have enjoyed a prosperity at least in its external aspect, but this was a malformed prosperity as it bristled with speculative buying and storing. This, indeed is a matter of general knowledge. One of the problems of
wartime finance not only in China but in all other countries as well, is how to operate short-time current deposits as long-time fixed loans. Consideration should be given not only to this problem of the mission of credit medium, but also to the role of creating credit itself. In China however, there is a circumstance which makes these activities difficult of speedy actualization. Generally speaking, credit medium in the case of commercial capital is apt to have the character of a usury commercial capital, while it has not yet attained the status of industrial capital. It was premature for China to have any system of credit creation with a normal character. In the past when there was no unification of bank notes issued, there was ample room for reflection concerning the creation of credit, and the expansion of credit loans under the old system should be given a deep consideration from the creation of credit. Thus, the financial business was in such a condition in the past that it could not function sanely or extensively in either receiving deposits or extending its loans. Its business activities were marked by unsoundness and narrowness. Moreover, increases made in the bank deposits under the China Incident were not those in fixed deposits but in current deposits. Although the increasing proportion of current deposits as compared with fixed deposits is a general phenomenon during wartime conditions anywhere, it goes without saying that it is contrary to the object of wartime finance. As to the problems of bank notes they are to be settled following the currency unification, while the evils bound up with credit loaning should be speedily dealt with.

3. THE TENDENCY OF THE BANKING BUSINESS

There are several viewpoints in taking up the problem of changes in the amounts of increases and decreases of deposits and loans in the Chinese banking business under the China Incident. Both China under new construction and China in opposition to Japan alike desire the establishment of a new wartime financial organization, because both have the same circumstances demanding such a financial organiza-
tion. In the districts under new construction, it was unavoidable that there was a temporary suspension of all commercial and industrial activities following military disturbances. Nor did the territory under the Chiang Kai-shek regime have the foundation of its commercial and industrial enterprises, although there was the proposal of the Hsinan investment. During this abnormal period, it is natural that the increases in bank deposits should be made only in current deposits, while the amount of long-term fixed deposits should steadily dwindle. This was the case with China. Reports made of eleven banks in Shanghai indicate that the percentage of fixed deposits before the China Incident was 60 per cent of the total deposits and it went down to 20 per cent after the outbreak of the incident. Conversely, the percentage of current deposits increased from 40 per cent to 80 per cent in the same period. No parallel changes took place for current loans. Both fixed deposits and fixed loans alike decreased in amount. However, different phenomena are seen in the case of the Bank of China. The percentage of its deposits and loans being as stated in later pages.

Immediately after the China Incident, a temporary decrease of bank deposits was expected because of the withdrawal of deposits and the flight of capital. However, the strained financial condition was quickly met with by the various measures of financial exigency and the following acts brought about the increases of bank deposits and the speedy expansion of current deposits in particular:—the bringing-in of money by refugees upon their return, the progress of the financial organs of the war districts, the bringing-in of hoarded fapi, the arrival of North China capital, and partial return of foreign capital from the places of its flight. This was particularly the case in Shanghai where the deposits of

banks increased rather than decreased, as compared with the conditions before the incident, because of the concentration there of idle capital from various parts of the country. This increase in the amount of deposits was due to the causes already stated and was not due to the creation of credit through the function of banks. Granting that it was made through the credit medium of banks, it was occasioned by the factor of instability coming from the entrusting in partial agency of the expanded volume of currency. Thus, this increase was made in the amount of current deposits instead of fixed deposits. In actuality, the amount of current deposits was the largest, followed by that of fixed current deposits and that of fixed deposits was the least—a phenomenon which was far from being consonant with the needs and demands of economic construction. This series of financial phenomena in the case of China should not be construed as events of process prior to the attainment of the inherent object of the commercial banks; but rather it should be considered as being adverse to such a process of attainment, because of the conditions of Chinese finance at that time. After the enforcement of the new monetary policy, control in the financial activities was augmented and the concentration of the right of currency issue in the hands of such large banks as the Central Bank of China (中央銀行), the Bank of China (中國銀行), the Bank of Communications (交通銀行), and the Farmers' Bank of China (中國農民銀行), had remarkably restricted the field of so-called creating credit by commercial banks. Thus, the increase in their deposits after the outbreak of the China Incident was made under this restriction. Nor were these deposits made for investment by the people; they merely were the surplus currency of idle capital and were stored by the commercial banks because of the absence of a proper outlet of their investment. Surplus capital would heighten the degree of being absorbed by bank deposits when the rate of interest is high. But so long as

it is unable to find an outlet for loans, it would overcome its limitations comparatively quickly for absorbing surplus capital by raising deposit rates controlling speculative activities. The raising of interest rate is effective in providing against the unstability of fluctuations in the amounts of the deposits of ordinary commercial banks, for increasing the amount of deposit reserves as well as in preventing the intensification of the tendency of investment in goods and all acts of speculative buying. However, it cannot surpass its natural limitations.  

Now, if the volume of deposits is increased and there is no corresponding outlet for loans, what would become of the money received? We are naturally faced with this query. The first phenomenon we confront is that the amount of deposit reserves for each bank will expand as a result of the increase of deposits and the reduction of loans. This expansion is forcibly expressed as an increase in the call loan and indicates the difficulty for bank capital to find an outlet for its loans as well as its functional limitations. Receiving deposits is necessary as a role of providing reserve money, apart from the difficulty of finding an outlet for surplus deposits, in order to provide against the unstability of fluctuations of deposits.  

Secondly, the volume of negotiable bills for all banks has invariably increased. This is because of the accepted idea in China that buying bonds is a most profitable enterprise. This, of course, does not mean the sane digestion of bonds but comes from its character as a sort of pressure and speculation in the financial world of China. While loans are difficult to withdraw in a single moment, it is easy in the case of government bonds which are not very risky. Here is then an outlet for bank deposits. Although investment in government bonds is also speculative, it is a healthier outlet for bank deposits than investment in buildings and real estate, because while the latter investment

is liable to deadlock, the former investment enjoys flexibility, and is an outlet of some merit. In addition to government bonds, the amount of other negotiable securities has increased, indicating another outlet for deposit increases. In this connection, it may be stated that there have been no marked changes in the investment of banks in buildings and real estate, which is said to be a characteristic of Chinese commercial banks.

In view of the fact that the sphere of the Chinese banks under the wartime conditions was in the war areas, great business losses might be supposed. In reality, however, the effect of this was so light that they had only the rate of their profit-making somewhat reduced. Moreover, some of those banks which had been complaining of heavy losses made some improvement in their business conditions. Although the interest rate per diem (about four per cent) of current loans is very low, the payment of interest and tightness in the operation of deposits are causes for reductions in the yieldings of the banks. Since the rate of interest for fixed deposits is high (being about 8-9 per cent), it tends to add to the burden of the banks; and unless an outlet is opened for the use of fixed deposits, their increase would reduce the yieldings of the banks. It is unthinkable, however, that, because of this, banks avoided to receive fixed deposits. The banks must have been hit by the hostilities at least to some extent, and there must be some reasons why the banks managed to earn yieldings though in reduced rates. The reasons are not far to seek. The banks took up the business of exchange which is not their inherent function. They carried on the transactions of foreign exchanges and made speculative investments in various goods. They also gave loans with such goods as securities and were engaged in the transactions of various securities. A close

13) Further consideration is necessary for the reduction of financial power. op. cit. Bank Weekly, Vol. 27, No. 13-14, p. 2.
examination of these activities of the banks should be undertaken. I have made such a study elsewhere.\(^{14}\)

The financial movement in wartime conditions that should be taken from the standpoint of positive construction is the establishment of new financial organs in the districts of construction, and their adjustment. In the districts under the control of Chiang Kai-shek, there were proposals for the establishment of branches for provincial, municipal banks as well as agricultural and industrial banks, but conditions for the investment of capital were not ripe for any of them.\(^{15}\)

I have above explained the phenomenon of the increases made in the amount of bank deposits during the China Incident. I shall now take up the loans made by eight commercial and savings banks in addition to their deposits. The loans have also shown increases as the following table indicates.\(^{16,17}\)

The Deposits and Loans of Chinese Banks
(1936-1938 in Yuan)

<table>
<thead>
<tr>
<th></th>
<th>1936</th>
<th>1937</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>1,417,264,428</td>
<td>1,506,120,755</td>
<td>1,896,476,313</td>
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<tr>
<td>Loans</td>
<td>1,127,534,219</td>
<td>1,150,534,477</td>
<td>1,586,547,527</td>
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</tbody>
</table>

The foregoing table shows that the total amount of bank deposits increased from 1,400,000,000 yuan in 1936 to 1,900,000,000 yuan in 1938, while that of bank loans increased from 1,100,000,000 yuan in 1936 to 1,600,000,000 yuan in 1938. A specially large increase was made between the year 1937 and 1938 in the amount of bank loans. Normally, it appears impossible to find causes for the increase of bond loans and such an increase may be considered as a partial treatment of figures. However, it is necessary to analyze the causes

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14) op. cit. Economic Research, Vol. 2, No. 8, p. 54
of this increase. It is said that in wartime the business of making loans by the banks would become a loosing business activity. But in China this does not mean that this business of making loans in the past has been healthy and profitable. Moreover, in wartime the activities of speculative business will become more delicate than hitherto. It behooves the Chinese banking business to detach itself from its speculative activities as far as possible under the existing wartime conditions, especially because of various issues which are bound up with financial control required by the wartime exigencies.

It is not impossible to regard the increase in the amount of bank loans side by side with bank deposits, as an advance towards the creation of their credit although the object of such loans has been speculation, because such loans tend to maintain a balance in the business conditions of banks. However, it should be noted that the abnormal financial power of commercial banks is bound to undergo a decline with the increasing activities of semi-government banks such as the Federal System of Four Banks (四行聯合辦事處總裁) in the districts under the sway of Chiang Kai-shek and the Federal Reserve Bank of China (中國聯合準備銀行) and the Central Reserve Bank of China (中央儲備銀行) both in the district under construction, the former in North China and the latter in Central China. Such a destiny of the commercial banks is not a result of the China Incident but rather is a natural outcome of the improvement of the banks which have held their financial power in their malformed condition. However, affairs which have been concomitant on the China Incident such as the accommodation of war expenses, the expansion of productive power and the expansion of currencies and the like had the effect of reducing the activities of the commercial banks. Their sphere of activities has been also narrowed by speculative acts through agencies other than the commercial banks themselves. Generally speaking, commercial banks under financial control do not usually lose their financial power because of their being such banks. In
the case of China, however, the commercial banks came to expose their weaknesses on account of their backwardness when the pressure of control by the currency reform and wartime economy was brought to bear upon them. The adjustment of the business activities of the ordinary commercial banks has been made along the line of advance of the old function of credit loans to loans on bills. It is true that the adjustment of ordinary commercial banks gives rise to the phenomenon of their retreat from their old position. This, however, is the re-start of their new and healthier development. It is contended that no business depression was registered by commercial banks in China before and after the China Incident. The fact remains, however, that the real power of those banks has been relatively on a decrease. This will also result in the elimination of the condition which has proved an impediment to their improvement owing to their own inherent position.

To summarise: there has been the phenomenon of credit concentration in the Chinese banks, especially those in Shanghai, but capital has not been digested as it should have been. All this tells us that not only the commercial banks should shift their function from the medium of deposit to that of loans but that all of their problems should be solved by their attaining the object of credit creation.

In this connection, it is necessary to make a survey on the character of the monetary market and capital market, not as a malformed phenomenon under the China Incident, but as a matter relating to the backwardness of Chinese finance. The China Incident has rendered a fundamental readjustment of their character a matter of absolute importance.

4. CONSOLIDATION OF THE BANKING FUNCTION

It is asserted that after the adoption of the new currency policy by China, constructive economic programs became
possible in that country. This in regards to finance means its advance from that existing malformed transition to the stage of normal development. In other words, industry and finance must be made to form inseparable relations with each other. The finance of a nation depends on the support given by industry, while industrial development finds its outlet in the adjustment of finance. It is also maintained that Chinese finance should be made to advance not only to that degree where it can adjust the general financial transactions by means of individual credit, but also to that stage where it can bring about a considerable advance of the industrial world in general and thereby creating ground for the accommodation of capital. The accommodation of capital should be directed towards the establishment of a credit system and assuring its healthy operation, so that the advancement of Chinese national economy may be promoted.\(^{19}\)

On the other hand, consideration should be given to the fact that the increase of bank deposits has lost much of its significance because of two financial factors following the outbreak of the China Incident. These factors are: the replacement of fixed bank deposits by current bank deposits, the latter showing an increased rate of proportion over the former; and the existence of a large amount of currencies issued including the old fapi and the Central Reserve Bank notes, with their vast purchasing power.\(^{20}\)

The role to be played by wartime finance does not permit its ending in a paper plan only. Reciprocal relations between industry and finance make inevitable concentration of financial endeavours on some important plans such as providing war expenses and expanding production output. Some of the missions of wartime finance are very wide in scope and require urgency in their administration. Peace-time financial


measures demanded the Chinese banks to shift their business activities from receiving short-time fluid deposits to accommodating long-term fixed loans. No alteration, of course, has been brought about in the character of the banks by wartime finance, which demands stronger and more effective measures than hitherto.

In considering the adjustment of financial mechanism, capital should be distinguished into two forms, namely, fixed capital and fluid capital, according to the length of the period during which it is employed. Capital employed in construction objects will be long in service and will be distinguished from that which is employed for a short period of time. Thus, the expansion of construction problems will be accompanied by the expansion of the fixation of capital. The market of short-time capital is known as the money market and corresponds to the so-called financial market. The market of long-term capital is popularly called the capital market. In the case of China, with the progress of her construction projects, demand for the capital market became stronger than that for the money market. However, the real transition was far from sufficient. This fact is an instance of retarding the progress of construction projects in Chinese national economy.

In the adjustment of financial mechanism, distinction should be made between two forms of market, namely, the money market and the capital market. The money market takes up the movement of the short-time capital of industrial and commercial enterprises, while the capital market takes up the long-term investments of fixed capital. Concretely speaking, the main business activities of the market of short-term capital consist in short-time credit loans, discounting of bank-endorsed bills and commercial bills and making loans in general. In the case of China, however, although a considerable progress is claimed to have been made in her credit loans, the circulation of her short-term capital has not yet attained such a state of development. As regards the long-term capital market, financial activities such as loaning on
security, the issuing of, and payment on, government bonds, debentures and corporate stocks, as well as market operations for security transactions, should be taken into consideration. Now, the notable fact regarding government bonds in the case of China is that they have made a malformed development of their own and have failed to carry out their inherent functions of the capital market. Such being the character of these two markets, distinction should be also made of the character of the corresponding supply of capital for each of these markets. In other words, short-term capital tends to depend on created credit, while long-term capital tends to depend on financial accumulations made by saving. In the field of the money market, capital has the character of operating capital, while in that of the capital market, capital assumes constructive characteristics.\(^{21}\)

The above distinction between the money market as the short-term capital market and the capital market as the long-term capital market comes from the reasons already noted. In China, however, there is a view which ignores this distinction. This idea is based upon the preconception that the financial system of the West, particularly, Britain and the United States is progressive, while that of China is backward in character. It is asserted that since there exists a clear line of demarkation between financial organs concerned and the source of capital in the Western nations, their market is in a condition in which the above distinction is possible. It is further argued that in the case of China, her financial organization has not yet made a healthy development and the conditions of her commercial and industrial enterprises have not adequately made use of that organization, so that it is highly difficult for its financial mechanism to receive the full support of the financial market. When the present conditions of the Chinese financial organization and realities in the Chinese industrial development are taken into consideration, it is more consonant with facts in case, if no

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\(^{21}\) Yasuma Takada, Second Treatise on Economics, pp. 273-274.
distinction is made between the money market and the capital market. It is concluded that for the Chinese it is sufficient to continue their old system and make improvements thereon.\textsuperscript{20}

In reply to the foregoing contention, if may be said that one cannot deny the necessity of a distinction between the money and capital markets simply because of the backwardness of Chinese finance. The most that one can say is that it is difficult to make such a distinction between the two markets. Long-term capital can justly be included in the use of short-term capital, while the latter, in turn, can be included as far as possible in the use of the former. Under duress of the scarcity of capital, even coercion is brought to bear upon the using of short-term capital as long-term capital. This qualitative change tends to eliminate the character of certainty possessed by the two forms of capital, long and short, and gives rise to further consequences. Special attention should be paid to this point in a study of the Chinese financial mechanism.\textsuperscript{20}

The malformed transition of ordinary commercial banks in the existing Chinese banking system had to be taken into consideration in respect to both short-term capital and long-term capital, and this has the effect of blurring the boundary line between these two forms of capital. Both those who supplied capital and those who demanded capital alike were accompanied by something vague which smoke-screened their existence, and neither short-term capital nor long-term capital was able to maintain its distinct field of activities. We can see from the above fact why both the security market and the mechanism of brokerage which were to act as organs of promotion between the suppliers and consumers of capital, inevitably possessed a character of speculation.

I shall now consider the problems of improvements to


\textsuperscript{23} Chen Chia Tsun: Das chinesische Bankwesen, 1938, SS. 98-99.
made on the business activities of the Chinese bankers by centering my treatment on the problems of the Central Bank of China. We have already seen that the Chinese commercial banks scored a business success in their unfavourable condition before and after the China Incident. The fact of the concentration of idle capital in Shanghai and the general trend of speculative buying and storing has been clear from the business conditions of banks. The banks have been unable to absorb idle capital and offer it as construction funds. This is partly due to the fact that there are some things with regards to China's prevalent speculative buying and storing that make it impossible for one to regard them as mere acts of speculation. Meanwhile, the Chinese financial organs have expanded their credit loans thereby losing their self-control. Coupled with the fact that the bulk of bank deposits were current deposits, the volume of fixed deposits being a very negligible portion, the credit loaning by the banks constituted a grave crisis for themselves. It is because of this state of affairs that their exercise of self-control was greatly demanded. Demand for the replacement of credit loans by loans with bills as security has been also made from the same ground.

The problem of improving the methods of loans has renewed the problem of accepting bills. This gives rise to the increasing importance of loans by the Central Reserve Bank of China. It is now proposed that a certain limitation should be placed on the amount of bank loans. It is accompanied by a difficult technical problem of exact mathematical computation. The object of the proposal is to replace credit loans by loans with security. 24

The central bank in any country today has the following main activities: the concentration of issue reserves, the concentration of deposit reserves and the financial disposition of the national treasury. China has also shown a system ap-

proaching to such a general mechanism in its transition. Like other central banks, the Central Bank of China also carries on the bank rate policy and open market operation by using short-term and long-term capital, but China's case is more complicated than those in other countries. In China, in order to bring about the complete adjustment of the banking system, the central bank should undertake the business of ordinary banks and transfer it to them for actual purposes. The Central Bank of China has the burden of bringing about such a state of business activities. The advanced nations can depend mainly upon their existing organs for their financial control by improving and utilizing them. It behooves the backward nations that they establish new organs and guide their activities for a similar purpose of control, in addition to their utilizing the existing organs. The establishment of a new financial mechanism and the opening up of a new field of financial endeavour are necessary. Although the ordinary commercial banks have continued their outward conditions, in reality they are faced by a basic circumstance which is radically different from their former status and the problem of their internal adjustment has become a matter of paramount importance.