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CHINA'S CURRENCY REFORM AND ITS SIGNIFICANCE

I. INTRODUCTION

China, after the commencement of the twentieth century, endeavoured to effect a currency reform, especially through discussions on the problems of treaties, foreign trade and indemnities, but failed to realize its object. The phenomenal rise of the price of silver during the World War seemed to offer an excellent opportunity for effecting this reform, but the opportunity was allowed to slip away. It was in 1929 that Dr. E. W. Kemmerer proposed a currency reform in his "Project of Law for the Gradual Introduction of a Gold Standard Currency System in China". After this, the currency reform question was neglected for a time, in the midst of the prevailing world depression, especially that which has come from the collapse of the gold standard system in many countries. The policy of the United States to purchase silver, put into effect since 1934, has caused the most obvious outflow of silver from China, to the consternation of the optimistic silver men who had never dreamed of such a consequence, and has thereby intensified the depression of Chinese economy and given rise to the present currency reform, which may be regarded as a life buoy thrown at Chinese economy adrift in the sea of economic crisis, or as the culmination of a long-drawn struggle for bringing about the desired currency reform ever since the end of the last century, especially since 1902.

It should be noted in this connection that the present currency reform, important as it is, did not come as the result of the endeavours of Chinese economy itself but was born of the intensified world depression and particularly of

the great confusion in the political and economic world of the Far East. This fact promises many dubious issues regarding the future of the currency system of China and presents many perplexing problems concerning the development of the capitalist system of economy.

The function of the gold exchange standard and the development of the capitalist system of economy have been discussed throughout the world. In the Orient, however, this question has been treated as a colonial currency question. This is true of the Netherlands East Indies, British India, the Philippines, the Straits Settlements, and French Indo-China. Japan and Siam are the only independent nations in the Orient that have some direct connections with this system. China has painfully struggled to cope with this problem since the last century, especially since 1902, and the road she trod was much more thorny than that of either Japan or Siam. At one time the support of the Powers seemed very hopeful but China's internal disunity made lasting international support impossible. No fundamental currency reform had been effected, and China had to be satisfied with the adoption of reforms of minor importance, the following being some of the more notable ones: the silver yuan standard of the Ching Dynasty adopted in 1910 which foreshadowed the adoption of the gold standard; the silver yuan standard of the Revolutionary Government, adopted in 1914; and the revised silver yuan standard of 1935.

Many other currency reforms have been tried, some of which were suggested by Japan. The fact remains, however, that all proposals that were actualized as practical legislation were strictly confined within the premises of the silver standard. For instance, Tsao Ju-lin's plan in 1918 for the adoption of the gold exchange standard was very timely, but the personal disharmony of Chinese leaders wrecked it. A similar plan advanced by Dr. Kemmerer was rejected and considered as impracticable, in spite of his great fame as an undisputed authority on the gold standard. But the unexpected pressure brought to bear on Chinese economy by

the United States' policy of purchasing silver, resulting in agricultural panic, made it inevitable for China to adopt the gold exchange standard. The circumstances which have led to China's adoption of the gold exchange standard are thus different from those of the Far Eastern colonies I have referred to and from those of both Japan and Siam, which are independent nations. Two factors, namely, the intensified world depression and the American silver policy, solved the problem of Chinese currency reform as if by a single stroke.

The reform of Chinese currency treated as a Far Eastern problem is different from that of the aforementioned colonies. It will be recalled that Japan, as an independent nation, was able to adopt the gold exchange standard by using a war indemnity and that Siam, another independent nation, succeeded in her domestic economy in opposition to the interference of foreign capital. China, on the other hand, had long anticipated the necessity of adopting the gold standard, but her economic policy, both in its domestic and its external aspects, had to travel the road of vacillation, until she became no longer able to withstand the heavy pressure of the world depression and that of a foreign economic policy, which together at last forced her to adopt the gold exchange standard.

The recent currency reform by China did not come from any use she made of the normal development of her own capitalist system of economy. It is a step China was forced to take in order to combat the unprecedented depression in her economy. In other words, it was the last measure left to China which is an object of the economic development of Western capitalist countries.

I shall trace the history of China's currency reform in sections and elucidate the significance of the recent reform.

II. THE HISTORY OF CURRENCY REFORM IN CHINA

As has been already stated, the question of Chinese currency reform became an active issue after 1902, but as early as 1888, Kang Fa-ta proposed a bimetallism in the

Central Gold and Silver Act drafted in obedience to an Imperial decree and it was looked over by Hsu Ching-teng, Chinese Minister to Germany. The following proposals were also made: the gold standard plan by Hu Chu-fen in 1895, and by Sheng Hsuan-huai in 1896, and the gold pound standard plan by Yang I-chih in 1897. None of these plans was carried out. The Sheng Hsuan-huai plan was given Imperial sanction in February, 1897, but the financial distress of the Chinese Government during the years before and after the war with Japan made its realization impossible. But it may be considered that what should be China's currency reform was suggested during these years, and that the attempts made after 1902 were no more than a re-examination of what had been proposed before.

The Boxer Uprising of 1900 imposed on China an indemnity of 450 million taels. Her indemnity to Japan consequent to the Sino-Japanese War of 1894-5, amounting to 230 million taels, made China's total indemnity almost 700 million taels. This great burden coupled with the increasing fluctuation of the price of silver and China's recognition of the fixing of its currency standard in the treaties with Japan, Great Britain and the United States, greatly stimulated the currency reform movement. For more than thirty years proposals were made and resolutions were passed by both Chinese and foreigners. All of these proposals and resolutions anticipated the inevitability of adopting the gold standard. Some of them urged the immediate adoption of the gold standard, but the majority of them were in favour of the silver standard or the gold exchange standard as a step towards the gold standard, pointing to the scarcity of gold mines and the import surplus in China's foreign trade. The first of such proposals was the gold exchange standard plan advocated in 1903 by an American named Jenks, and the subsequent discussions and proposals centered around his scheme. China at least twice received similar proposals from foreign sources. These were the proposals made by a Dutch expert named Vissering and by Dr. E. W. Kemmerer,

an American adviser to the Chinese government previously referred to in this essay. Although neither of these schemes was adopted by China, the plan adopted in November, 1935, was based upon the foregoing proposals in favour of the gold exchange standard. I have grouped the various proposals made from 1902 up to the present into (1) the silver standard, (2) the gold exchange standard and (3) the gold standard. I have further grouped them into (1) those made by Chinese and (2) those made by foreigners, as follows:

1. PROPOSALS FOR THE SILVER STANDARD

(1) CHINESE PLANS

(a) The Chang Chih-tung plan of 1904.—As has been stated, the first attempt at effecting a currency reform in China during the 20th century was the Jenks plan of 1903. This plan was opposed by another advocated by Chang Chih-tung. The latter was similar to the Robert Hart scheme which I shall presently take up. The Chang Chih-tung plan recognized the inevitability of adopting the gold exchange standard in the future, but at the same time favoured the unification of the currency under the prevailing silver tael standard. Chang Chih-tung tried to carry out his plan in his own province of Hupei by way of providing an example for the whole country, but his death put an end to his own project.

(b) The Tang Shao-i plan of 1908.—This plan followed the one proposed by Chang Chih-tung. It was not adopted.

(c) The silver tael standard plan of 1908.—This scheme was primarily proposed by such leaders as Chang Chih-tung, Yuan Shih-kai and Na Tung and it proposed to adopt as the standard currencies the Kupei one-*tael* and the five-*chien* silver coin. This plan was adopted by imperial edict after consultation with the governors, civil and military, of the provinces. That is, the silver tael was adopted as the standard in competition with the silver yuan.

This plan suggested two proposals: the use of pure silver and that of mixed silver. The Government adopted the latter plan and fixed its purity at 980 per mille.

The realization of this plan was desired by foreigners as well as by the Chinese, and after the Lang Jun Kung Conference resolved the coinage of new currencies, Prince Tsai Tse presented his draft of the new currency law to the State Ministers' Conference. But the plan failed to materialize because of the death of the Emperor Hsu Ching and the repeated political changes, although the new currency law had been promulgated.

(d) The Silver Yuan Standard Plan of 1910.—The silver yuan standard was primarily proposed by Prince Tsai Tse and was intended to make one yuan silver equal to Kupei seven chien and two fen. As has been stated, the silver yuan plan was at first overwhelmed by the silver tael standard plan, but Prince Tsai Tse refused to give in, pointing to the difficulties involved in the latter plan in respect to coinage, use and unification. He succeeded in meeting the opposition of Yuan Shih-kai to his plan, and after the death of Chang Chih-tung, he established the Currency Reform Investigation Bureau in order to study the economic conditions and monetary customs in the currency histories of the Powers. He then fundamentally revised the New Legal Tender Law which had been based on the silver tael standard and already promulgated, and adopted the silver yuan standard. According to this plan, the standard currency was to be one yuan silver coin which was equal in weight to Kupei seven chien and two fen and its grade was 900 per mille, so that the weight in pure silver was six chien, four fen and eight li. This plan had the effect of creating the Four-Power Consortium, but it also failed to materialize because of the opposition of public opinion to the despotism of Kang Fa-te and the consequent revolution.

(e) The Chinese Currency Reform Committee Plan of 1913.—This plan was decided by the Revolutionary Government in the second year of the Republican régime. The

reason for deciding in favour of this plan is explained substantially as follows in the official statement relating to the New National Currency Act: "The experiences of the Powers do not recognize bimetallism, but the gold standard, which is the most desirable system, cannot be adopted in China because of her special circumstances. On the other hand, the gold exchange standard can be adopted by a colony which is capable of maintaining its exchange with the help of its mother country, but it would be difficult for China to maintain her exchange. Thus, the only recourse allowed China is to adopt the silver standard."

(f) The National Currency Regulation Plan of 1914.—The Currency Reform Committee drew up the national currency regulations by which one yuan, the standard coin, was fixed at seven chien two fen and 900 per mille in grade, or pure silver of six chien four fen and eight li. The reform was planned to commence from a district and then gradually extend to the whole country, according to the following three reasons: (1) the existence of different financial customs in the various parts of the country due to the territorial vastness of China necessitated that the reform be commenced from trade ports; (2) the amount of the new coins and new bank notes was not sufficient to meet at once the demand of the whole country; and (3) the circumstances in different parts of the country demanded the suitable revision of the currency regulations to meet the needs of each district. This reform, however, proved impossible of realization.

(g) The plan of a Chinese scholar in 1913.—The author of this plan says that he was a strong advocate of the gold exchange standard for China when he was studying in England, but the result of his investigations in Chinese trade ports after his coming home forced him to admit the impossibility of enforcing the gold exchange standard in his country, owing to the difficulties in unifying the parity of silver and gold and in maintaining the legal price of silver. And thus he concludes that the urgent need, accordingly, is

the unification of currencies by adopting a temporary silver standard, while in the meantime preparations and measures are pushed for the future adoption of the gold standard.

(h) The plan of the 1928 Economic Congress.—In 1928 the National Government convened an economic congress of leading industrial and banking capitalists at Shanghai in order to discuss the financial and economic issues which were confronting China at that time. This plan was adopted by this congress. The plan recognizes as the final system the gold standard but tries to unify the currencies by means of the prevailing silver dollar for a temporary purpose. Thus, this plan abolishes the silver tael. According to this plan, the silver dollar is to be 0.6589 Kupei tael.

(i) The revised silver yuan standard plan of 1933.—The Nanking Government abolished the tael and regulated and issued a new and uniform standard silver yuan.

(2) FOREIGN PLANS

(a) The Hart Plan of 1903.—This plan was made in 1903 by an Englishman named Robert Hart. He believed that the best policy was for China to circulate both silver and copper coins in order to maintain the parity of gold and silver and thereby prevent the fluctuation of exchange. Thus, he urged that the Government should possess the power of coinage, continue the traditional tael, chien, fen, li as the names and units of weight of the new silver coins, and issue four coins, one Kupei tael (the grade being 900 per mille), five chien, two and half chien, and one chien; fix the exchange rates of the new coins and foreign currencies; accept applications for conversion by foreigners; and provide the gold coin, secured in such conversion, for the settlement of foreign debts and for the coinage of gold coins in the future. Thus, Robert Hart favoured the silver standard in anticipation of the gold exchange standard.

(b) The Jamiessen Plan of 1903.—This plan was presented by an Englishman named Jamiessen in 1903 in his attempt

to criticize Jenks's views in favour of the gold exchange standard. Jamiessen pointed out that the Jenks plan stressed foreign trade and ignored domestic commerce and asserted that it was premature for China to adopt such a plan as was proposed by Jenks in view of the existing state of affairs in that country. He held that the direct object of China's currency reform was the silver standard and that the gold exchange standard should be adopted only after the silver standard had been perfected.

(c) The Wagel Plan of 1915.—This plan is contained in Wagel's work entitled "Chinese Currency and Banking". He believed that the greatest difficulty of currency reform was not the fluctuation of the exchange rates of gold and silver, but the lack of unification of domestic currencies. Realizing that all economic changes should be made gradually, Wagel respected traditional customs and at the same time tried to conform to the existing conditions. He was convinced that the first step towards currency reform was to adopt the silver standard. He urged that the Shanghai tael should be made the currency unit and that subsidiary copper coins should be unified.

He advocated a banking system in which the whole country was to be divided into several banking districts. The bank in each district was to have the right to issue bank notes and to be a semi-government institution. The bank was to carry out the function of paying and receiving for the National Treasury and also was to be empowered to supervise domestic banks. His plan was full of wisdom, as might be expected from his long stay in China and his deep knowledge of the actual operation of the currency system in that country. His plan was in sharp contrast with the plan advocated by Vissering, who was in favour of establishing a powerful private bank as the first step towards the desired currency reform.

(d) The Passeri Plan of 1918.—Passeri was in favour of increasing the powers of both the Government and the Bank of China as the first step towards currency reform. His

plan called for the adoption of the Peiyang silver yuan as the standard currency; the stability of its value was to be guaranteed by the Bank of China; and all other banks were to be prohibited from issuing bank notes.

2. PROPOSALS FOR THE GOLD EXCHANGE STANDARD

(1) CHINESE PLANS

(a) The Finance Department's Plan of 1908.—This plan was stimulated by the memorial presented to the Throne in 1907 by Wang Ta-wein, Chinese Minister to England. It was stated in the plan that the adoption of the gold standard was impossible in a country like China which lacks adequate gold holdings and that the best practical measure was to adopt the gold exchange standard. The plan urged in preparation for this currency reform the issuance of gold notes with the silver holdings as security. It is said that this plan was based on the views of an American expert named Samuel Ingram. Gold certificates were to be issued either by the Mint or the National Treasury from time to time as necessity demanded, and upon request for conversion, silver bullion was to be given at the gold value of its market price. It was thought that a period of six or seven years was needed for the execution of this plan.

(b) The Sheng Hsuan-huai Plan of 1908.—Sheng Hsuan-huai presented the State Currency Plan in 1908 by which he recommended to the Government the following measures: to stabilize the currencies with silver as the standard; to adopt the gold exchange standard; and to stabilize exchange by means of specie holdings abroad. This plan also made the silver dollar the standard currency, and proposed to issue gold conversion notes as well as gold coins, the Bank of China to be instrumental in effecting currency reform as the central bank of issue. The Bank of China, however, was to be a semi-government organization.

(c) The Chinese Currency Reform Committee Plan of 1912.—After the National Revolution, China created the Currency Reform Committee in order to deliberate on the question of currency reform. This committee decided in favour of the adoption of the gold exchange standard, the objects of which are given as follows: to stabilize exchange; to make payments to foreign countries economically more wholesome; to place the nation's foreign trade in safety; to stimulate the inflow of foreign capital, thereby facilitating the transition to the gold standard within a definite period of time; to make the transfer of silver, with gold as the standard, appropriate to the economic power of the people; to minimize the drastic fall of the value of the silver tael; and to avoid the loss of interest due to the hoarding of gold. The plan called for the issuance of silver substitute coins for the gold unit, and for the gold reserve exchange fund, foreign bonds and other means of international settlement were to be used. As regards the determination of the exchange rate between gold and silver, efforts were made to approximate the face value of silver coins to their real value as far as possible, in order to prevent counterfeiting.

(2) FOREIGN PLANS

(a) The Jenks Plan of 1903.—As has been stated, in 1903 the Chinese Government asked the advice of the United States Government regarding the reform of Chinese currency. In response to this request, the United States created an international exchange committee which decided that the gold exchange standard was the most suitable system for China, and instructed Jenks to recommend it. This plan has remained a subject of active debate down to this very day. Thus, Jenks is the original exponent of the gold exchange standard which has remained the main stream of the currency reform movement in China during the past thirty years. The Jenks plan provided the coinage of silver coins for the purpose of domestic circulation. At the same time,

gold, fixed at the ratio of 1 to 32 of the silver coins, was made the unit of prices. The free coinage of gold coins was to be permitted, and the transfer of gold and silver was to be made at the official rates. Exchange funds were to be maintained in London and other important centres of trade in order to maintain the official rates of gold and silver. The plan was intended to be put into effect in China's trade ports and even in interior regions within a period of five years.

A hostile attitude to the Jenks plan was manifested because the plan failed to give due consideration to China's domestic commerce and pressed heavily on her foreign trade and further because the currency reform was to be managed by foreigners. The plan was regarded by Chang Chih-tung and other Chinese as an utter disregard of Chinese sovereignty and as an infringement on her financial rights. The ratio of 1 to 32 for gold and silver was held by Chinese as an attempt to promote foreign interests at the expense of the Chinese people. Because of this opposition, the plan failed to materialize.

(b) The Vissering Plan.—Vissering was invited to China in 1911 to become an adviser on Chinese currency problems. In his book "On Chinese Currency", published in 1912, he advocated currency reform through the gradual adoption of the gold exchange standard. He divided the time needed for the completion of the gold exchange standard system into three periods. During the first period, the gold unit was to be adopted, a central bank of issue was to be established or the Taching Bank to be reorganized into a central bank of issue, the gold unit was to be used for the settlement of accounts, and new convertible gold bank notes, with gold reserves, were to be issued. During the second period, the following was to be carried out: the grade, weight and purity of substitute silver coins and subsidiary coins to be fixed; the gold reserves for substitute silver coins, the coinage of gold coins in case of necessity or the temporary substitution of foreign gold coins; the issuance of temporary gold notes; the decision of legal tender either by substitute

silver coins or gold coins or notes. Finally, during the third period, the existing silver tablets and copper coins were to be collected, and the old silver dollars to be properly withdrawn and disqualified as currency.

The Vissering Plan was accepted by the Revolutionary Government and gave rise to the plan of the Chinese Currency Reform Committee of 1912 which we have already noted.

(c) The Kemmerer Plan of 1929.—This plan was presented by Dr. E. W. Kemmerer, an American to whom reference has already several times been made, who was invited to become a financial adviser to the National Government. It was the result of his investigation into the financial and monetary affairs of China for about a year. Kemmerer had effected currency reform in more than ten countries including the Philippines, and had come to be known as the "Money Doctor". However, his plan of Chinese currency reform drew both praise and condemnation. But the influence his plan exercised on China's currency reform is very noteworthy. It is said that the recent currency reform is the same as the Kemmerer plan, the only difference being that the gold exchange is replaced by the pound sterling.

His report was presented in "Project of Law for the Gradual Introduction of a Gold Standard Currency System in China" on November 11, 1929. His report held the view that the essence of currency reform in China consisted in the adoption of the gold standard and the unification of currencies. It was thus in favour of the gradual introduction of a gold exchange standard, of withdrawing various currencies now in circulation and of enforcing a unified gold standard system. The unit of the new gold standard, called "Sun", was to contain 0.60866 gram of pure gold. This is approximately the same as the value of the silver yuan. No regulations for the coinage of gold coins were contained in the report. This is because the circulation and coinage of gold coins is not necessary under the gold standard at present.

Under this plan, different provinces were to adopt the gold standard in succession and the enforcement of the new currency system was divided into three stages of time. In the first stage, the date of the circulation of the gold standard currency was to be announced. After this date, the new currencies were to be legally circulated and used in the payment of wages, in bank deposits and in all other business transactions. Secondly, within one year after the date of the circulation of the gold standard currency, the second date, for the circulation of the gold standard legal tender, was to be announced. After this, the only legal tender would be the gold standard currencies. But this second date could not be within one year after the first date. It was also specified that the second date should be announced at least six months before hand. The third date was for the settlement of debts. After this, all payments in respect of debts or other contracts, fixed in the old currencies, were to be made in gold coins in the official ratio between the old currencies and the gold standard currencies. This official ratio was to be decided according to market prices during ninety days prior to the announcement period. The announcement of this third period might be made simultaneously with the date of the gold standard legal tender circulation or otherwise, but it could not be made before this date, and must be made at least six months before that period.

(d) The Sassoon Plan of 1935.—This plan is known as the Shanghai pound paper money plan and was advocated in March, 1935, by Sir Victor Sassoon, an English financier in Shanghai. This plan, coupled with the visits made to China by Major-General Hammond and Sir Frederick Leith-Ross in April and September, respectively, in the same year, had a deep influence on Chinese currency reform. According to this plan, China was to borrow money from England to be used as security for issuing the Shanghai pound paper money, which was to circulate side by side with the Shanghai silver yuan. The Shanghai pound paper money was to be secured in London by paying the English pound and in

Shanghai by paying the Shanghai silver yuan at the exchange rate on London. The paper money was to be used as a substitute for gold notes and for the payment of imports.

Public opinion in China showed its opposition to the Sassoon plan because of its objectionable political motives. Its advocates explained in vain that it was a temporary measure to serve only until the time when the American policy of purchasing silver should be changed.

(e) The Kwanchin Currency Plan of 1935.—Because of the unpopularity of the Sassoon plan, the National Government issued the Kwanchin Currency, by which it tried to remove the heavy pressure placed on the commercial, industrial and financial circles in Shanghai. Kwanchin notes were issued to the amount of 200 million yuan using English credit as reserves. Thus, the National Government attempted to adopt an abnormal gold exchange standard.

There are other plans in favour of the gold standard or bimetallism. The following are those which were proposed by Chinese.

3. PROPOSALS FOR THE GOLD STANDARD

(a) The Hu Wei-te Plan of 1904.—This plan was presented by Hu Wei-te, Chinese Minister to Russia, in opposition to the Jenks plan. He held that, since China is the only non-gold country in the world, all other countries being gold countries, the only way to protect China's foreign trade is to circulate gold coins inasmuch as the high price of gold and the low price of silver are injurious to a country having the silver standard. He pointed to the fact that Japan spent ten years in collecting gold in preparation for the adoption of the gold standard, and urged that China do the same. He advocated the plan of collecting the gold hoarded by the people and expressed his own opinion that this can be brought about by selling government posts.

(b) The Yang Shih-hsiang plan of 1907.—This plan which was made by Yang Shih-hsiang, Governor of Chili Province, was intended to minimize the loss due to China's

payment of the Boxer indemnity in gold coins, by coining gold coins at the Teintsin Mint. He secured the sanction of the State Ministers but failed to convince Chang Shih-tung, who criticized it as defeating its own purpose, and who advocated the development of goldmines, rather than the coining of gold money, for the solution of the problem.

(c) The Wang Ta-hsieh Plan of 1907.—In 1907 Wang Ta-hsieh, Chinese Minister to England, proposed the immediate adoption of the gold standard in order to cope with the prevailing unrest due to failure in effecting currency reform. But his plan was rejected by the Finance Department which laid stress on the desirability of adopting the gold exchange standard.

(d) The Prince Tsai Tse Plan of 1908.—Prince Tsai Tse, who was opposed to the decision of the Government to adopt the silver tael standard, advocated by Chag Shih-tung and his followers in 1908, proposed the adoption of the gold standard at the Langjunyuan Congress, seeing that the high officials of the Government were in favour of the gold standard. He also announced a plan of preparation to be followed by a gradual process of adoption over a period of ten years. He thereby tried to obstruct the enforcement of the silver tael standard.

(e) The Tsao Ju-lin Plan of 1918.—The question of adopting the gold standard in China was revived by Tsao Ju-lin, Minister of Finance, who advocated the issuance of gold notes based on the gold yuan having 0.752318 gram of pure gold. He pointed out, as the chief reason for his plan, the fact that one third of the budgetary estimates of the Chinese Government constituted interest payments on foreign loans and indemnity payments, all of which were based on the gold standard; that the fluctuation of the price of silver is detrimental to China's foreign trade; and that all foreign countries in actuality had the gold standard. This plan was materialized in the form of gold note regulations in August of the same year. It was provided that Japan was to assist in China's currency unification with a loan, the proceeds of

which were to be deposited with the Bank of Japan as reserves against which gold notes were to be issued. At this very juncture, a nation-wide boycott against Japan arose in China and leaders of the boycott movement made loud cries against the foolishness of having conversion reserves in a foreign country. This objection stopped the realization of the Tsao Ju-lin plan. The gold notes regulations provided that gold notes were to be issued by a bank designated by the Currency Bureau and that the gold note unit was the gold yuan having 0.752318 gram of pure gold.

(f) The Peng Hsueh-pei Plan of 1934.—This plan was presented to the National Economic Congress in March, 1934, by Peng Hsueh-pei, who asserted that preparations for the adoption of the gold standard were absolutely necessary for the adjustment of the nation's foreign trade and the equilibrium of payments. The plan failed to materialize, first, because of the fact that many nations had already discarded the gold standard by 1934, due to the worldwide economic depression, and, secondly, because the plan itself lacked the scientific basis necessary for its actualization.

In addition to the foregoing proposals the following may also be mentioned: bimetallism proposed by an Austrian expert named Schwarzwald in 1913; a similar plan advanced by Mr. J. F. Darling, director of the Midland Bank, who urged that a new currency unit of "Rex" should be created. The latter proposal, it should be noted, was not limited to China.

Nor should we forget plans formulated by Japanese, for they have played an important part in China's currency reform. In 1889 Baron Sakatani proposed bimetallism as against the gold standard plan proposed by Kang Fa-te. He later suggested the gold standard when Na Tung and Jenks paid a visit to Japan in 1903. Again, in the Shanghai China Gazette in 1911, and in the Financial News in 1912, he advised China to adopt the gold standard after the American pattern. In the same year, the Tokyo Clearing House suggested the customs gold standard, and in 1918 the Tokyo

Chamber of Commerce also suggested a plan based on the gold standard. At that time a keen interest was shown in Chinese currency reform by many Japanese economists and financial experts such as Toda, Kawada and Sakuda, all of whom engaged in active discussion of the problem. But I regret I have no space here for the presentation of their views.

III. THE SIGNIFICANCE OF CHINESE CURRENCY REFORM

As has been pointed out, China's currency reform was first examined in its embryonic stage immediately after the Sino-Japanese War of 1894-5, and was re-examined after 1900. This re-examination was caused by China's recognition, in treaties with Japan, England and the United States, that she must decide her currency standard, and also by the fact that the payment of the Boxer indemnity and her import surplus had the effect of depreciating the price of silver and thereby oppressing Chinese economy. It is easy to see, therefore, that the ultimate object of this re-examination was the gold currency standard. Thus, a memorial, concerning the adoption of the silver yuan standard, presented to the Chinese ruler in 1908, stated: "If we are to follow the general trend of the world, the adoption of the gold currency standard is highly desirable". Again, the official declaration issued in the same year praised the gold standard in the following words: "All nations adopt the gold standard and have various silver coins as subsidiary currencies. Their system is highly minute and very convenient in circulation". But then why is it that the gold standard was not actually adopted? The answer is given by the following quotation: "A vast expense will be required for the adoption of the gold standard, and the gold exchange standard involves many risks". Moreover, China in actuality had the copper standard at that time, and the sane policy seemed to be to adopt the silver currency standard rather than to make a leap to

the gold standard. This is more fully explained by Chang Shih-tung as follows:

"In the commercial ports and cities along the coast, seventy or eighty per cent. of the people use silver coins and twenty or thirty per cent. use copper coins. Silver and copper coins are used side by side by the people in the markets along the Yangtze River. But in provinces and prefectures to the north and the south of the Yangtze River, the ratio is one for silver and nine for copper coins. In some of these provinces, ninety-five per cent. of the people use copper coins and only one per cent. use silver coins. In other words, although silver and copper coins are used side by side in China, the area in which copper coins are used is ten times that in which silver coins are used. On the other hand, all State expenditures are calculated in silver, while civilian expenditures are expressed in copper coins. Although foreigners regard China as a silver country, in reality our country is one of the copper countries."

The desire to adopt the silver standard was realized in 1910 when the New Chinese Revised State Currency Regulations were promulgated and the silver yuan currency standard was adopted thereby. But it is unmistakable that its future object was to introduce the gold currency standard. Shang Hsuan-huai's plan provided a period of two years for its completion while the period required by Prince Tsai Tse's scheme was ten years, but both plans had identically the same object.

All these plans can be roughly grouped into those proposed from the Chinese standpoint and those proposed from the foreign standpoint. Some of the former advocated the adoption of the silver standard, and others, the gold exchange standard, while still others were in favour of the adoption of the gold standard. But the great majority of the Chinese plans were in favour of the adoption of the silver standard, because all these plans had the common object of adjusting the existing currency system through the adoption of the silver standard. On the other hand, the plans for the adop-

tion of the gold exchange standard, proposed by foreigners, tended to have as their object the security of indemnities and loans to China. Many of the plans for the adoption of the silver standard proposed by foreigners were intended to further the exchange and commercial interests of their own home countries. Moreover, China's desire to effect her currency reform by her own self-initiated and independent efforts led her to reject the plans for the adoption of the gold exchange standard proposed by many foreign financial experts. Thus, viewed from the Chinese standpoint, the gold exchange standard came to be regarded as a system of "forceful appropriation by deceiving people in calculation" (a quotation from the memorial presented to the Throne by Chang Shih-tung). And yet China could not help resorting to this same system of the gold exchange standard, which was once regarded as the above quotation indicates; first, because Chinese economy failed to bring about its development by its own initiative and power, in accordance with the orthodox ideas of the capitalist system of economy; and, secondly, because China had sought as the ultimate object of her currency reform the gold standard.

China's judgment of the currency standard in the early stage of her currency reform movement was thus correct to some extent. But because of her vacillation and suspicion, she was unable to achieve the normal development of her national economy and, in the present economic depression, was forced to resort to the currency standard which she had regarded as a national enemy, being too severely pressed by national necessity to question the merits and demerits of the system. Primarily, the gold exchange standard is operated by backward capitalist countries having no gold mines of importance with which to make preparation for their adoption of the gold standard. For this reason, a country wishing to adopt the gold exchange standard should so operate its economy as to make the adoption of that system a means of securing greater advantages in its foreign economic relations. Whether a nation succeeds in this economic

policy decides the fate of the gold exchange standard.

Up to the time of the presentation of the Jenks plan, China's attitude towards her currency reform was one of friendliness towards other nations, and she scrupulously respected international treaties and showed a willingness to coöperate with others in dealing with the problem of the international currency standard. It will be recalled that the Jenks plan was regarded as beneficial to foreign countries, and Chang Shih-tung stated in criticizing it that "an independent and self-supporting nation should not permit foreign interference in the problems of its finance". But China's wish to solve the question of the international currency standard through international coöperation is best shown by the following events. In January, 1903, the Chinese Government instructed the Chinese Chargé d'Affaires at Washington to request, together with the Mexican Minister to the United States, the American Government to suggest means for making good the loss in international exchange resulting from the fluctuation of the ratio between gold and silver. China also sent both Prince Tsai Tse and Na Tung to Japan to ascertain Japanese views regarding the same problem.

In view of this attitude on the part of China, the United States and other countries wished to assist her in the solution of the problem, but the opposition by some Chinese leaders to international coöperation led China to confine herself in the shell of the silver standard. This circumstance is a very deplorable event in the history of Chinese currency reform.

Of course, it is clear that the gold exchange standard inevitably possesses a highly monopolistic and somewhat oppressive element, when it is operated from the standpoint of financial capitalism. China had had several opportunities for effecting her currency reform before it became too serious for any further delay, but she lost these opportunities because of her suspicion of the motives of foreign powers. This is highly deplorable, especially in view of her earlier attitude of international coöperation. China failed in her attempt at

effecting currency reform, in spite of her realization of the necessity of adopting the gold standard in the early stage of her reform movement, because she neglected to develop her national economy and improve her international accounts by her own efforts and regarded with suspicion the gold exchange standard which alone she could have operated to her best advantage. The fact that China placed undue importance on her own power and failed to follow the principles of the capitalist system of economic organization are the chief reasons for her failure in effecting the needed currency reform.

IV. CONCLUSION

To summarize: In the early stage of her currency reform movement, China had the right conception of the nature of the gold standard but she came to show an attitude of suspicion and vacillation towards the gold exchange standard which she had to adopt before passing on to the gold standard. Moreover, Chinese economy was sacrificed upon the altar of rivalry among the Chinese military leaders, and this obstructed the development of the natural resources of China as a backward capitalist nation. She was then caught in the maelstrom of the world-depression. All these factors are responsible for the recent currency reform.

While China has been showing suspicion and vacillation, Japan's gold exchange standard has been put into successful operation in Korea. The Tokyo gold yen entered Manchuria through the Bank of Chosen and after the establishment of Manchoukuo it made union with the currency of Japan. Its future is bright indeed. Viewed from the standpoint of international finance, this success of the Japanese yen certainly irritated British economy more than Chinese economy, and forced England to become very anxious to dig her last financial trench in China. The Nanking Government, whose economic policy towards Japan has failed, perceived the new situation and realizing the inevitability of the collapse of the

country, allowed England to occupy the last line of the Chinese financial defence. In other words, China entrusted the work of adopting the gold exchange standard to England. Great indeed is the significance of this event for international finance. At present the details regarding the nature of the proposed pound gold exchange standard are not available, but there is no doubt that British economy will be the chief supporter of this currency system. At present the Chinese currency standard is linked to the pound and China is thus urged to participate in the so-called sterling bloc.

Some may say that so long as the Japanese yen also belongs to the sterling bloc, Japan's relations towards England are the same as China's. Of course, the waters of the Haungpukiang are in communication with those of the Thames, just as our Sumida River is. But the significance of the operation of the Japanese currency in the Far East, and in consequence its operation on Chinese economy, is not the same as the operation of the English pound on the same economy, although the Tokyo gold yen is in communication with the sterling bloc. Both the Tokyo gold yen and the English pound are gold exchanges in the prevailing system of capitalist economy. But there is this difference between the two currencies: whereas the English pound is purely capitalistic in pattern, the Tokyo gold yen has recently shown a deviation in its purity so far as its operation in the Far East, especially in China, is concerned. This deviation is an indication of what Japan has been doing and what she is intending to do in the Far East.

One may therefore say that China fell into the pit against which she had been on her guard from the very beginning of her currency reform, when she cast her lot with the purely capitalistic English pound, in combating the economic depression. The fears and vacillation China has shown as regards her currency reform should have been directed against the English pound, but the reality is just the opposite of such a sane policy. And China is about to become an area of rivalry between the English pound and the Tokyo

gold yen.

There is another currency which should have entered the ring. That is the American dollar. As has been pointed out, the immediate cause of the present complication in China is the determined enforcement of the American policy of purchasing silver. China was full of apprehension of the dire consequences of this policy upon her economy as soon as it was announced by the American Government and appealed to it for reconsideration, but her protest was in vain. Thus, it was the United States that misguided China in the latter's currency reform. The policies on which the United States has been laying much emphasis in recent years are domestic rather than international. In view of this fact, it is unthinkable that the United States will extend a positive aid to China in any near future. But this does not mean that the New York dollar has forgotten China altogether, for its activity in China is only circumscribed by the special circumstances of the United States.

It may further be observed that neither France nor the Netherlands lacks qualifications to participate in the problem of the gold exchange standard in China. Although these countries are the principal members of the gold bloc, they are too busily engaged in the work of maintaining their respective standards at home to take a hand in affairs of another nation. Consequently, no positive participation is likely on the part of either of these countries in the immediate future.

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