

CURRENCY, BANKING, AND FINANCE IN CHINA

UNITED STATES
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OF COMMERCE



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BUREAU OF FOREIGN AND DOMESTIC COMMERCE

JULIUS KLEIN, Director

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**CURRENCY, BANKING, AND
FINANCE IN CHINA**

BY

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With the cooperation of various other American Consular
Officers in China and adjacent regions



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DEPARTMENT OF COMMERCE,
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,
Washington, June 16, 1925.

SIR: There is transmitted herewith a report on currency, banking, and finance in China, prepared by Frederic E. Lee, special agent, who was until recently American economist consul in China. Dr. Lee spent some years in the Far East on detail at the American consulate general at Shanghai, and later on special detail at the American legation, Peking, for economic investigational work in China and adjacent territory.

This report is the result of an investigation covering the major portion of the years 1921 and 1922 and since brought up to date and added to by Dr. Lee while serving in the bureau as specialist in Far Eastern finance. In conducting the investigation the leading banking and commercial cities of Hongkong, Canton, Shanghai, Hankow, Changsha, Tientsin, Peking, Dairen, Mukden, Harbin, and Vladivostok were visited, and other extensive trips involving some 20,000 miles of travel through 13 of China's 21 Provinces were made. In addition, a questionnaire was sent from Shanghai to all of the other American consular offices in China and adjacent regions, and extensive and detailed reports were received by Dr. Lee from 18 consular officers in this region, covering currency and financial conditions in virtually all parts of China. The data from these reports were used in part in the report transmitted herewith.

The growing importance of the economic and trade relations between the United States and China has made necessary a closer and more comprehensive survey of the latter country's currency, banking, and financial systems than has heretofore been made. The total foreign trade between the United States and China in the fiscal year 1922-23, in spite of almost insurmountable obstacles in China, amounted to \$315,000,000, or 40 per cent of the volume of trade between this country and the whole of South America. The entire population of South America is only one-seventh of the population of China. The growing foreign trade of China from year to year indicates an increased purchasing power on the part of the Chinese masses, thus making it an increasingly important foreign market.

The meagerness of information available on Chinese currency and finance is apparent to anyone who has lived in China for any length of time, or who has interested himself in the intricacies of Chinese finance and fiscal measures. In view of the chaotic and rapidly changing condition of the currency and finances of the country, the difficulties in the way of making an adequate and reasonably accurate survey of the currency, banking, and financial situation in China are more or less obvious.

In making this investigation and report it has not been Dr. Lee's intention to produce an abstract, scientific treatise on the subject. His purpose has been to make a practical, usable handbook, compact as possible, considering the complexities of the subject, giving the salient information on (1) the currencies in use in the various sections of China; (2) the banking situation and practices, and a description of the banks with which the American or other business man in China must deal; and (3) the financial condition and fiscal measures of the central and provincial governments of the Chinese Republic. The report relates to fundamental economic conditions which the present disturbed political conditions do not seriously affect.

The Bureau of Foreign and Domestic Commerce and Dr. Lee desire to acknowledge with appreciation the courteous and valuable assistance rendered in the preparation of this report and the investigations upon which it is based by bankers, brokers, currency experts, financiers, and American and other foreign business men in the Far East, as well as Chinese, American, British, and other foreign public officials in China. Extensive use has been made in this report of the works of Wagel, Vissering, Spalding, Morse, Willoughby, Jenks, and others. Where facts and figures not of common knowledge have been cited, the sources of the information have been given in footnotes or in the appendixes.

Respectfully,

JULIUS KLEIN,
Director of Bureau.

TO HON. HERBERT HOOVER,
Secretary of Commerce.

CONTENTS

	Page
Letter of submittal.....	IX
INTRODUCTION	1
Area and population.....	1
The Chinese people.....	2
Beginnings of Chinese history.....	2
Chou dynasty.....	2
Prehistoric currencies.....	3
Real money and currency.....	3
Early gold currencies.....	3
Chin dynasty.....	4
Han dynasty.....	4
Tang dynasty.....	5
Early attempts at standardization of Chinese currency.....	5
Mongol rule.....	6
Ming dynasty.....	6
Manchu rule.....	6
Boxer uprising.....	7
Reform period and the Republic.....	7

PART I.—MONETARY SYSTEMS

CHAPTER I.—Currency systems in China.....	8
Lack of system.....	8
Definition of terms.....	8
Cash.....	9
Copper coins.....	10
Debasement of copper currency.....	11
Coppers in circulation.....	12
The tael.....	13
Variety of taels.....	14
Haikwan tael.....	15
Kuping tael.....	15
Tsaoping tael.....	15
Local taels.....	15
Canton tael.....	16
Peking tael.....	16
Tientsin and Hankow taels.....	16
Shanghai tael.....	16
Silver shoes.....	16
Exchange value of taels.....	17
Newchang "transfer tael".....	17
Dollars.....	18
Early Chinese dollars.....	19
Republican dollars.....	19
The Yuan dollar and Gresham's Law.....	20

CHAPTER I.—Currency systems in China—Continued.	Page
Subsidiary coinage.....	21
“Big money” small coins.....	21
Danger of emphatic or prophetic statements on Chinese currency.....	22
The silver standard.....	22
Computing dollar value of Chinese currencies.....	23
Chinese mints.....	24
The Shanghai mint.....	25
Paper money.....	25
Mongol inconvertible notes.....	26
Modern paper currency.....	26
CHAPTER II.—Currencies in circulation in the different provinces.....	27
Kwangtung, Kwangsi, and Kweichow Provinces.....	27
Yunnan Province.....	27
Fukien Province.....	28
Hongkong currency.....	30
Chekiang, Kiangsu, and Anhwei Provinces.....	32
Shantung Province.....	32
Chihli and Shansi Provinces.....	33
Kansu Province.....	35
Honan, Hupeh, Shensi, Hunan, and Kiangsi Provinces.....	36
Szechwan Province.....	38
Manchurian Provinces.....	40
CHAPTER III.—Foreign and domestic exchange in China.....	43
“Relative par”.....	43
Current rates.....	44
Methods of determining silver exchange.....	44
Formula for the “constant”.....	45
Rates of exchange.....	46
Explanation of quotations.....	47
Buying and selling rates.....	48
Shanghai tael exchange rates.....	48
Principal function of foreign banks.....	50
Government debts and exchange.....	51
Domestic exchange.....	51
CHAPTER IV.—Operation and function of Chinese “cash shops”.....	53
Relation to foreign trade.....	53
Cash-shop note issue.....	54
Relation to domestic trade.....	54
Kalgan cash shops.....	54
Shantung cash shops.....	55
Effect on currency reform.....	56
CHAPTER V.—The problems of currency reform.....	58
History of currency reform.....	58
Foreign interest in reform movements.....	58
The American plan.....	59
Doctor Vissering’s plan.....	61
Recent developments.....	66
Chinese bankers’ conference at Tientsin.....	66
Chinese banking group and currency reform.....	66
Reform in issue of copper currency.....	67
The currency reform loan.....	67

PART II.—BANKING AND INVESTMENTS

	Page
CHAPTER VI.—Chinese banks and banking.....	69
Early Chinese banking.....	69
Present banking systems.....	69
Old style native banks.....	69
Determining native interest rates.....	70
The Shansi banks.....	70
Modern banking institutions.....	72
Earnings of modern banks.....	74
China's national banks.....	75
Bank of China.....	75
Bank of Communications.....	77
Government debt to the national banks.....	78
Recent banking tendencies.....	79
Native banks as distributors of coins.....	81
Loans to the Government by native banks.....	81
Native banks and foreign trade.....	82
Chinese banks outside of China.....	82
Chinese bankers' associations.....	82
CHAPTER VII.—Joint banking enterprises.....	85
Russo-Asiatic Bank.....	85
Banque Industrielle de Chine.....	86
Chinese-American Bank of Commerce.....	86
Balance sheets.....	87
Functions and activities.....	88
Other joint banks.....	88
The Exchange Bank of China.....	89
Salt Industrial Bank.....	89
Sino-Italian Bank.....	89
Sino-Scandinavian Bank.....	90
Strength and weakness of joint banks.....	90
CHAPTER VIII.—Foreign banks and branch banks.....	91
Position of foreign banks.....	91
British banks.....	91
Hongkong and Shanghai Banking Corporation.....	91
The Chartered Bank.....	93
Mercantile Bank of India (Ltd.).....	93
American banks.....	93
International Banking Corporation.....	94
Equitable Eastern Banking Corporation.....	96
American-Oriental Banking Corporation.....	96
American-Oriental Bank of Szechwan.....	97
American-Oriental Bank of Fukien.....	98
American Express Co.....	98
Proposed new American bank for China.....	98
French banks.....	99
Banque Industrielle de Chine.....	99
Banque de L'Indo-Chine.....	99
Credit Foncier d'Extreme Orient.....	99
Japanese banks.....	99
Yokohama Specie Bank.....	100
Bank of Taiwan.....	100
Bank of Chosen.....	100
The Mitsui Bank.....	100
Mitsubishi Bank (Ltd.).....	100
Simitomo Bank (Ltd.).....	100

CHAPTER VIII.—Foreign banks and branch banks—Continued.	Page
Belgian bank	101
Banque Belge pour L'Etranger	101
Dutch banks	101
Nederlandsche Handel Maatschappij	101
Nederlandsch Indische Handelsbank	101
German bank	101
Deutsch Asiatische Bank	101
CHAPTER IX.—Banking laws, regulations, and treaty stipulations	102
Extraterritorialized banks	102
Note issue of foreign banks	102
Laws affecting American banks	102
Japanese regulations in Manchuria	103
Chinese Government attitude toward foreign bank notes	103
Regulations restricting the issue of paper money	104
American Government's attitude toward foreign bank notes in China	105
Public attitude toward foreign bank notes	105
New banking regulations	106
CHAPTER X.—Banking practices and the financing of foreign trade	109
General functions of foreign banks	109
Foreign exchange	109
Loans	109
Deposits	109
Credit information and ratings	110
Drafts and transfers	110
Financing foreign trade	110
Export paper	110
"Fixing" exchange	110
Packing credits	111
Present methods	111
Import paper	112
Cover for exchange	112
Trade Commissioner Meekins' statement	112
Discrimination against or in favor of American traders	114
Effect of New York-London cross rate	115
Depository banks and forward exchange contracts	115
CHAPTER XI.—Investment banking and investments in China	116
Investment banking facilities limited	116
Recent developments	116
Obstacles in the way of investment banks	117
Relation of investment banking to sales of industrial machinery	118
Interrelation of certain foreign banks and industrial undertakings	119
Scope of foreign investments	120
"Spheres of interest"	120
Classes of foreign investments	121
Railways	121
Harbor developments	121
Mining concessions	121
Grand Canal project	122
Shipping	122
Public utilities	122
Chinese Government securities	122
Nature and extent of American investments in China	122

PART III.—PUBLIC FINANCE

	Page
CHAPTER XII.—Public revenue and expenditures	124
Need of a fiscal system	124
Principal revenues	125
Customs revenues	125
Salt taxes	128
Wine and tobacco taxes	129
Stamp duty	129
Peking octroi revenue	130
Other revenues	131
Income tax	131
Land tax	132
Likin	132
The Chinese budget	133
CHAPTER XIII.—China's national debt—Foreign loans	135
General statement	135
Foreign loans classified	136
Secured foreign debts	136
Unsecured or inadequately secured foreign loans	137
Railway and telegraph loans	137
Summary	140
CHAPTER XIV.—China's national debt—Internal loans	141
Internal loans classified	141
History of internal loans	143
National consolidated loan service	149
Other issues not in consolidated service	151
Salt surplus loan	152
Fourteenth year domestic loan	155
Present status of the consolidated loan service	156
CHAPTER XV.—China's national debt—General features	159
Other forms of debt	159
Summary of China's public debt	159
Per capita debt	161
Funding China's debt	161
CHAPTER XVI.—Foreign financial assistance and control	163
Extent of foreign control	163
"Control" defined	163
Control in railway concessions	165
The six-power consortium	166
American withdrawal from consortium	166
The four-power consortium	167
Remedial measures	168
Appendixes:	
A. Chinese banks distributed according to Provinces	171
B. Member banks of the Chinese banking consortium	180
C. The articles of incorporation of the Chinese-American Bank of Commerce	183
D. List of China's loans (foreign and domestic)	186
E. Status of the Chinese telegraph and telephone loans	209

CURRENCY, BANKING, AND FINANCE IN CHINA

INTRODUCTION

The currency and financial problems of the Chinese Republic are bound up to a considerable extent with the 4,000 years or more of history of the Chinese people. In order to understand and appreciate, even vaguely, the financial and monetary conditions in China to-day it is necessary to consider them in the light of historical developments which have taken place during earlier decades and centuries. Unfortunately economic and financial histories of China are for the most part yet to be written,¹ and the fiscal and financial information for the different periods must be culled from various political and general histories and from documents of differing degrees of accuracy.

AREA AND POPULATION OF CHINA

The Republic of China comprises the 18 Provinces of China proper—Kwangtung, Kwangsi, Yunnan, Kweichow, Fukien, Chekiang, Kiangsu, Hunan, Szechwan, Hupeh, Honan, Anhwei, Shantung, Chihli, Shansi, Shensi, Kiangsi, and Kansu; the three provinces of Manchuria—Fengtien, Kirin, and Heilungkiang; Inner Mongolia; Sinkiang or Chinese Turkestan; and a certain indefinite control exists in relation to Tibet and Outer Mongolia. The 18 Provinces constitute historic China and the main home of the Chinese people.

The total area of Chinese territory is estimated at 4,278,000 square miles²—approximately 1,000,000 square miles larger than the territory of the United States. This territory is apportioned as follows:

	Square miles
China proper.....	1, 533, 000
Manchuria.....	364, 000
Mongolia.....	1, 368, 000
Sinkiang.....	550, 000
Tibet.....	463, 000

The population of China is variously estimated at from 340,000,000 to 430,000,000, the latter estimate being that of the Chinese Postal Administration.³ China's population is thus approximately one-fourth of the estimated total population of the earth.

¹ I am not unmindful of the work of Dr. M. P. H. Lee, published by Columbia University in 1921 under the title, "The Economic History of China." This treatise would have been more aptly called, as the author herself called it, "A Study of Soil Exhaustion in China." Nor am I unaware of the fact that Wagel's "Finance in China" endeavors to give a survey of economic conditions in China, past and present.

² Area and population figures from China Year Book, 1922.

³ A recent estimate by E. T. Williams (1923) places China's population at 409,791,000, based upon the estimated population of the various Provinces. Cf. Williams, E. T., China, Yesterday and Today, p. 571.

THE CHINESE PEOPLE

The indigenous peoples of China are represented by the Lolo, To, Li, Miaotze, and other tribes of primitive people, still occupying the mountainous regions in the southwestern Provinces of China and the island of Hainan. These tribes have been driven to these regions by the spread of the conquering Chinese over the fertile areas of China, and in their mountain fastnesses they have preserved their own tribal customs and habits. They have been only slightly influenced by the Chinese culture about them, and in recent times have had little to do with any existing governments in China.

The origin of the Chinese people and of their culture is lost in the mists of antiquity.⁴ They came in to the country known as China to-day at a date, which, in the absence of positive proof, has been assumed to have been 2,500 to 3,000 B. C.⁵ At the dawn of their history, and at the time of the development of their written language they were settled in the river valleys to the west of the bend of the Yellow River in what is now the Province of Shensi. From this region they followed the river valleys, taking the land by conquest from the aboriginal tribes. What is now northern Honan was occupied at an early date. Going westward by the valley of the Wei they reached what is now Szechwan. To the south, after crossing the Yangtze, they occupied the Kan River basin in Kiangsi and the region about Poyang Lake. Later by the Tung Ting Lake and the valley of the Siang they occupied Hunan, and penetrated into Kwantung and Kwangsi. Their absorption of the Kingdom of Wu, stretching along the seacoast from the Yangtze south, was accomplished during the Han Dynasty between 206 B. C. and 5 A. D.

BEGINNINGS OF CHINESE HISTORY

In early Chinese history, as in the history of all peoples, the mythical and the true are almost inseparable. Chinese histories begin with certain mythical heroes who discovered fire, invented the plow, taught the people to build houses, invented the calendar, and drained the land of a flood. In connection with an investigation of currency and finance of China it would only introduce useless confusion to enumerate the dynasties and states, and the famous rulers, generals, statesmen, scholars, and priests of the different periods of Chinese history. We are interested, however, in the economic and cultural developments which took place during these periods.

CHOU DYNASTY

With the Chou dynasty, beginning about 1122 B. C., we begin to touch upon the real history of the Chinese people. By this time Chinese civilization had already begun to take on very definite characteristics. The Chous came into China from the northwest and by successive stages, covering a thousand years in time, finally settled near the present city of Sianfu. Here they became a powerful state and in 1122 B. C. were able to overthrow the Shangs and establish a new dynasty. They became the rulers of China for

⁴ Latourette, K. S.: *The Development of China*, chap. 2.

⁵ Cf. Morse, H. B.: *The Trade and Administration of China*, chap. 1, and Pott, F. L. H., *A Sketch of Chinese History*, pp. 2-10.

nearly 900 years, during which formative period Chinese social and political institutions became more or less fixed and definite.

During the Chou régime a feudal system grew up; commerce, art, religion, and philosophy flourished; writing was introduced, and iron weapons and implements came into use. During this period there lived and taught the sages Lao Tze, Confucius, and Mencius, whose writings have greatly influenced and shaped the lives of successive generations in China and the Far East generally.

PREHISTORIC CURRENCIES

The currency developments during the so-called prehistoric period are of interest. Prior to the Chou dynasty various media of exchange existed in China. Nearly every possible material is recorded as having been used at one time or another in the prehistoric systems of currency, such as inscribed skins, tortoise shells, cowries, axes, spades, bells, armlets, rings, rolls of silk, etc. Money of primitive form and design is said to have been in circulation even as early as 2000 B. C., and between 1500 and 1000 B. C. gold, silver, and copper money was in circulation in addition to the cowrie shells.⁶ The coins circulating from the Chou dynasty on were archaic uninscribed tokens of rulers and were known as round money, bell-shaped money, and spade money, the latter two being the simulacra of swords, spades, and bells, which formed important media of exchange toward the close of this period.

REAL MONEY AND CURRENCY

Money in its specific sense⁷ did not circulate as currency⁸ until about 100 years after the beginning of the Chou dynasty, about 1032 B. C. We find at that time the earliest recorded legislation on coinage, the sovereign having established in that year certain rules for currency, and enacted that metallic pieces should henceforth be exchangeable according to their weight.⁹ It is reported that inscribed coins then came into use, but for over three centuries the inscriptions contained no reference to weight or value. Even in that time a very elementary system of minting was in vogue. By the middle of the eleventh century B. C. the enactment of certain rules led gradually to the habit of casting coins of regular shapes and sizes and of constant weights. The oldest-known specimen of these coins, however, inscribed with weight or value is doubtfully assigned to about 375 B. C.

EARLY GOLD CURRENCIES

In the Chou dynasty the gold unit of currency was the chin or catty, a cube 1 inch in size and weighing 1 kin. "Of metals, gold seems to have been considered as currency only from the eleventh to

⁶ Wagel, S. R.: *Chinese Currency and Banking*, pp. 35-37.

⁷ Money in its specific sense means "that which is coined or stamped by public authority, and has its determined value fixed by governments." *Black's Law Dictionary*, p. 786.

⁸ "Currency, a term commonly used for whatever passes among the people for money, whether gold or silver coin or bank notes." *Bouvier's Law Dictionary*, p. 740. Currency is further anything which is used as a circulating medium and is generally accepted in trade as a representative of the value of property, or whatever circulates conventionally on its own credit as a medium of exchange.

⁹ Morse, loc. cit., p. 137.

the third century B. C. In modern times gold has been a commodity pure and simple, and in the shape of jewelry, or ingots, or gold leaf, has been used chiefly for hoarding."¹⁰

CHIN DYNASTY

The Chous, like the Shangs before them, were continuously subject to pressure from the northwest. In 249 B. C. they fell before a new power, the Chins or Tsins. During the Chin dynasty (255-206 B. C.)—the dynasty that gave its name to the country—the Great Wall was built as a protection against the fierce Central Asian tribes and all South China and Annam were brought nominally under its sway. The feudal system was abolished and the government was centralized. The coins in circulation at this time were of the shape known as knife and spade, and "pu" or bell, and were popular because they represented for purposes of barter the implements which were in common use and of which the wealth of the people consisted. Gold, pearls, and precious stones are said to have formed the upper grades of currency at the beginning of the Chin dynasty. The Prince of Chin, after subduing the country, is said to have extended the use of round money by prohibiting the use of cowrie shells, pearls, gems, and precious stones as currency. Gold in circulation at this time consisted of coins called "yi,"¹¹ 20 taels¹² or ounces in weight, and the "chin," 16 taels in weight, with a lower grade round-money coin of half a tael in weight.

HAN DYNASTY

The Chin dynasty was short lived and soon gave place to the followers of the Prince of Han. The Han dynasty, which lasted from B. C. 206 to A. D. 221, was the Golden Age of Chinese history. During this régime paper was invented, a bureaucratic form of government was established, painting and sculpture developed, and Buddhism made its first appearance in China from India. Iron was used extensively for coinage during this dynasty, and by various later kingdoms in West China. Even in the tenth century A. D. coins in the Province of Szechwan were mostly of iron. The knife coins, representing a more highly developed civilization than the spade or bell coins, were in general use at this time with their inscriptions, giving the place of issue and indicating that they were token currency. By the beginning of the first century A. D. the knife coin had been highly conventionalized, the blade being shortened and the ring at the end having become a thickened representation of the round coin with a square hole in the center which was the common coinage at that period.

There was a slight change in the weight of gold unit during the Han dynasty, and, according to most authorities, gold ceased to be used as currency about the beginning of this régime. According to Wagel, the most notable event of this period was the adoption of the copper cash, about one-fifth of a tael in weight as the standard.¹³

¹⁰ Morse: *Ibid.*, p. 136.

¹¹ Cf. Wagel, S. R.: *Chinese Currency and Banking*, p. 36.

¹² The tael is the "ounce" in China, of which, as in England and America, 16 make one "catty" or Chinese pound. "Catty" or "katie" is the Malayan word for pound. (Morse, *Ibid.*, p. 168.) The tael is the equivalent of 1½ ounces, avoirdupois.

¹³ Wagel, S. R.: *Chinese Currency and Banking*, p. 36.

although frequent alterations were made in the weight of this coin. The round coins with a round hole had been in use from about 660 B. C., and the round coin with a square hole from 221 B. C. According to Morse,¹⁴ China has had copper coinage of the shape we know to-day uninterruptedly for 21 centuries. It is in connection with the use of copper or bronze coins in China that the terms "currency" and "coinage" are said to be synonymous.

Of the further developments during this period Wagel says:¹⁵

For various reasons the Emperor Wen-ti (of the Han dynasty) thought it best to allow free private coinage; in the next reign this right was abolished. Wang Mang's decree introduced three new varieties of cash besides the one mentioned above; large coins, which were 2 inches in diameter, about half a tael in weight, bearing the inscription meaning "large cash worth 50"; secondly, the "ta'i'tao," worth 500 units, the value of which is not known at present, and thirdly, "tuo tao," worth 50 units. When Wang usurped the throne he made further changes, and during his régime, from 7 to 22 A. D., there were 28 different kinds of money; there were gold, silver of 2 qualities, 4 grades of tortoise shell, 10 grades of "pu" or bell-shaped money, and six grades of copper coinage.

For over 400 years after the Han dynasty civil strife and repeated invasion prevailed. For 600 years there was a jumble of currency although through most of the period metallic money was quite common.¹⁶

TANG DYNASTY

The Tang dynasty, 618 to 907 A. D., is another illustrious epoch in Chinese history. The Cantonese were again brought under the control of China and the boundaries of the country were greatly extended. Important cultural contacts with the West were established by the coming of Mohammedans, Magians, and Nestorian Christians into the country. Under this régime in 667 Korea came under Chinese rule. The importance of the Chinese classics was emphasized. Literature flourished and the arts were greatly advanced.

EARLY ATTEMPTS AT STANDARDIZATION OF CHINESE CURRENCY

Attempts at standardization of the currency were made about 620 A. D. in the Tang dynasty. Coins were issued weighing one-tenth of a tael, of a diameter of eight-tenths of an inch, and 1,000 of these were the equivalent in weight of 6 catties and 4 taels.¹⁷ At this time began the issue of the coins inscribed in square modern character "Kai-yuan." Coins with this inscription are said to have been issued by the first Tang Emperor (A. D. 618-627).

Of these coins Morse says:¹⁸

The first coins to be inscribed with the title of the reigning Emperor, thus giving an exact date, were issued in the reign of Kienfeng (A. D. 666-668). This new currency, introduced by a strong and wise government in sufficient quantities for the needs of the people, supplied a type which has endured to this day. With a diameter of 0.95 inch, they were of the same approximate dimensions and weight as the coins which, until the great melting down of the past 20 years, constituted the "chih-tsien" or standard coinage of the Empire; and 30 years ago, searching critically through hundreds of strings of cash in everyday circulation, I found among them not a few of these coins which had formed part of the ordinary

¹⁴ Morse, *ibid.*, p. 138. Cf. Spalding, Wm. F.: *Eastern Exchange, Currency and Finance*, p. 340.

¹⁵ Wagel, *ibid.*, p. 37.

¹⁶ Cf. Latourette, K. S.: "The Development of China," pp. 38-44; Wagel, *loc. cit.*, pp. 37-38.

¹⁷ Cf. Spalding, *ibid.*, p. 341; and Wagel, *loc. cit.*, p. 37.

¹⁸ Morse, H. B.: *Trade and Administration of China*, p. 139.

currency of the people for 11 to 13 centuries, minted before the time of Alfred of England, before Charlemagne was crowned at Rome, and long before a King of France reigned in Paris. The type persisted through the Sung dynasty (A. D. 960-1126), varied by occasional issues of coins of larger size. These issues also were made in sufficient quantities for the needs of the people, and these, too, I have found among coins in present circulation. Speaking of 30 years ago, in every 1,000 coins there would be 2 or 3 of the Tang and 10 or 12 of the Sung mintage.

MONGOL RULE

Passing over the period of the Sung dynasty (A. D. 960-1125) with its interesting socialistic experiments,¹⁹ and the period of the Golden Tartars, we come to the period of the Mongol rule (A. D. 1260-1368)—the Yuan dynasty which ruled the China that Marco Polo knew. Under the great emperor Kublai Khan, the Chinese were permitted to retain their culture without modification on the part of the Mongols, who recognized the fact that Chinese civilization was in all respects far higher than their own. As a matter of fact, this civilization of China was probably in many respects in advance of that of Europe of the time.

The Mongols settled down to a life of luxury, living upon the tribute in silks and rice which they levied on the conquered people. Few coins were issued, and of silver and copper coins few came into the treasury otherwise than by plunder. The needs of the government under the Mongols were met for the most part by issues of irredeemable paper money, of which the enormous sum of 40,000,000 taels was issued during the hundred years of Mongol rule. In fact, it was the distress brought about by this wholesale use of inconvertible paper money that brought about the downfall of the Mongols and the rise of the Mings, the last purely Chinese dynasty.

MING DYNASTY

With the coming of the Ming dynasty in 1368, prosperity and splendor again reigned. The currency was restored, trade routes with the West were extended, the arts flourished, and scholarship was encouraged. European traders began to come to China in this period, the Portuguese in 1516, the Spanish in 1575, the Dutch in 1604, and the English in 1637. Christian missionaries followed, particularly the Jesuits under the leadership of St. Francis Xavier, although he himself was unable to enter China.

MANCHU RULE

The Ming dynasty came to an end in 1644 with the rise of the Manchus to power, following internal rebellions in China in which the Manchus were asked to take part. The Manchus, like the Mongols, left the civil administration in the hands of the Chinese and preserved the Chinese civilization. They later were absorbed by it, and, to all intents and purposes, became Chinese. The Manchu dynasty, or the Ta Chings (Great Chings), lasted from 1644 to 1911, a period of 267 years.

During this period the outstanding development was the fuller contact of China with the West, brought about by the insistence of

¹⁹ Cf. Latourette, K. S.: "The Development of China," pp. 55-57; and Arnold, Julean: Commercial Handbook of China, p. 17.

Western nations that China should open her ports to trade. This result was finally achieved at the time of the treaty of Nanking, in 1842, following the so-called "opium war" with Great Britain, which inaugurated the system of "treaty ports." This system has since been greatly extended until over 100 such treaty ports exist at the present time, open to trade and residence by the foreigner.

With the wars between Great Britain and China, France and China, Japan and China, which occurred within the period of Manchu rule, the student of the West is fairly familiar. Following each of these wars more treaty ports were opened, indemnities were levied against China, concessions were granted, and China gradually lost control of her foreign trade through the development by foreigners of a maritime customs service, the tariffs for which were fixed by foreign powers. In spite of serious obstacles, the total foreign trade of the country increased. In 1878 the total foreign trade of the country amounted to about \$220,000,000 and by 1890 it had increased to \$270,000,000.

BOXER UPRISING

As a final attempt to expel the foreigner and put a stop to foreign aggression in China, the Chinese resorted to what is known as the Boxer uprising. It proved a last blind, desperate effort on the part of the Chinese to rid themselves of the obnoxious, unpopular alien. The principal result for China was the imposition of an indemnity of 450,000,000 taels (\$330,000,000 gold) by the foreign powers affected. This, coupled with the indemnity of 230,000,000 taels which Japan had exacted following China's defeat in 1894 and the later retrocession of the Liaotung Peninsula to China by Japan, marked the real beginning of China's foreign debt and her troubled financial career since that time.

REFORM PERIOD AND THE REPUBLIC

Following the disastrous effects of the war with Japan and the Boxer rebellion, as well as the effects of the Russo-Japanese War of 1905 on China, the people of China demanded a wide-sweeping reform. In 1906 the Government reorganized the ministries of state and prepared for the introduction of representative bodies. The reform movement, however, could not be satisfied with halfway measures, and it finally swept aside the Manchus with the creation of a Republic in 1911-12.

With the formation of a Republic, however, China's difficulties were not solved. In fact, her financial difficulties continued to increase, and the difficulties of her unwieldy, chaotic currency systems became more apparent with the rapid increase in her foreign trade and the beginning of her industrial development. With this brief historical survey we are now ready to enter into a more detailed study of China's currency and banking systems and the country's financial problems.

Part I.—MONETARY SYSTEMS

Chapter I.—CURRENCY SYSTEMS IN CHINA

LACK OF SYSTEM

To be exact, there are no monetary systems in China, and the term is used loosely when applied to the various copper, silver, gold, and paper currencies which circulate or have circulated in times past in China. As Wagel has stated,¹ it is difficult to designate the position of currency in China at any period, under any of the heads known to the experts on currency. At no time has there been anything approaching or corresponding to a system. In the beginning of his article on currency, exchange, and banking, embodied in the Commercial Handbook of China,² C. Passeri, former financial adviser to the Bank of China, has the following to say on the currency situation in China:

The currency in China is chaotic; it forms the most complicated mixture of heterogeneous mediums of exchange, from a weight to a coin, that has ever existed in any one country. Under the circumstances it will be easily understood that it is a rather difficult problem to ascertain the standard when confusion exists in the currency itself.

It would be impractical in a work of limited scope to attempt to go into detail in connection with the early history of the various forms of currency in China. There is confusion enough in connection with the local currencies of modern times. At the present time there are the following forms to reckon with: Cash; copper token coins; taels, based on silver bullions; dollars; "small-coin" silver; and "big-money" small coin, without taking into consideration at this point the Government, bank, "cash shop" and "small-coin" notes, which will be discussed later in connection with paper money in China.

DEFINITION OF TERMS

Before entering upon a description of these different forms it will be well to have certain of the foregoing terms defined.

Cash.—A small coin, generally in copper or bronze, constituting the standard for the every-day transactions of the lower classes of the Chinese people, particularly away from the large cities, and therefore the principal currency for the majority of the Chinese.

Copper coins.—Nominally 10-cash pieces, inscribed at the mints as worth one-hundredth of a dollar but actually only token coins intrinsically worth less than half of their nominal value in their relation to dollars and cash. There are also "double-copper coins" or 20-cash pieces, but these are intrinsically worth only about 1.6 of 10-cash or 1-cent pieces.

¹ Wagel, S. R.: Chinese Currency and Banking, p. 40.

² Commercial Handbook of China, by Julian Arnold, Vol. II, p. 158.