THE MONETARY POLICY OF MANCHOUKUO

By

KYOROKU YAMANARI

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KYOROKU YAMANARI
FORMERLY VICE-PRESIDENT, CENTRAL BANK OF MANCHOU

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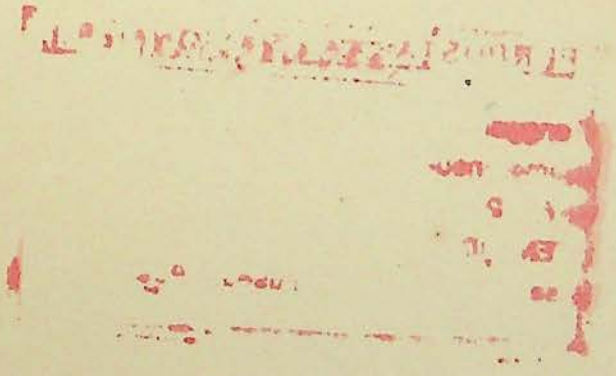

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CHAPTER I

INTRODUCTION

THE standard unit of the monetary system of Manchoukuo is the yuan. It is closely linked to silver, but is not, properly speaking, on a pure silver standard. In addition, notes issued by the Central Bank of Manchou circulate as a medium of exchange. These notes, however, are not redeemable in silver, and accordingly the function of the Central Bank is to maintain a parity between the currency and silver through the exercise of its note-issuing power. The monetary system, therefore, has been termed as being on a "managed silver standard". Because certain changes have been made since it was first set up, the system as it stands today can be better understood if we make a brief survey of its past history.

Since the opening of the Central Bank on July 1, 1932, the silver yuan has been the standard unit fixed by the Law Relating to the Monetary System which provides: "The standard unit of value shall be 23.91 grams of pure silver and such unit shall be designated as a yuan". And for two years (i.e. July, 1932 to June, 1934) from the time it began its operations, the Central Bank so regulated the currency as to maintain its value on a parity with this standard unit of value, so that its notes were equivalent in value per yuan to 23.91 grams of pure silver.

The history of the monetary system of Manchokuo since the opening of the Central Bank may be divided into four periods, each representing a different stage in the evolution leading to its present form.

CHAPTER II

CURRENCY LINKED TO SILVER

(THE FIRST PERIOD)

The first period was that in which the currency was maintained on an absolute par with silver. This was the two year period be-

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tween July, 1932 and June, 1934. What effect did this new monetary system have on the minds of the people and upon the economy of Manchoukuo?

In short, it meant the re-birth of confidence that only stability in the medium of exchange can secure. The people who had hitherto suffered untold hardships from sudden losses in the value of their money through the abusive issue of paper fiat money, rejoiced in finally realizing their long cherished hope of getting a stable medium of exchange and in being assured of a currency which would be equal to silver in value. They welcomed the advent of a stable measuring rod by which the value of their commodities might be better evaluated. Further, it was even thought that the stabilization of currency, which is so closely inter-related with economy, meant an assurance of good faith on the part of the new administration to those who had some doubt as to the future of the new State.

To the Chinese who constituted 90% of Manchoukuo's thirty million inhabitants, utilization of a currency which was the same as that in China proper was not only convenient, but was easy to comprehend. Inasmuch as the silver yuan was the standard unit of money in China at that time, and as for all practical purposes, the standard monetary unit in Manchoukuo was also a silver yuan the two standard units were really common units of the one and same value. For instance, if one wished to make remittances to Tientsin or Shanghai, disregarding the incidental costs of remittance, 100 yuan remitted from Manchoukuo would net 100 yuan in China. To the 90% of Manchoukuo's population, then the new monetary system meant order and stability in place of the chaos and confusion which had theretofore existed in both family and financial relationships. Its effects were really far reaching.

The other result of tying currency values to silver was the stabilization of commodity prices. It had been a customary phenomenon in the past that commodity prices in countries on silver standards remain unchanged for long periods of time. This was reflected in the price levels in gold standard countries; in gold standard countries like Japan, Great Britain, and the United States, the fluctuations in the silver quotations coincided with changes in the average of commodity price indices. In other words, the value of silver moved parallel with the average com-

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modity index figures in the gold standard countries. This fact was what statistics over several decades indicated, and in that case, it meant that in silver standard countries there had been practically no change in the prices of commodities. In China, commodity prices had not fluctuated either up or down for a period of several decades; and even during the Russo-Japanese War and Great War periods when fairly violent fluctuations in commodity prices took place in Japan, practically no change in commodity prices was recorded in China. This was due to the nature of silver. Likewise in Manchoukuo, there was no need of thinking about commodity prices during the two years in which the value of the paper currency and of silver were at a par. In other words, during the first two years following the enforcement of the Law Relating to the Monetary System and the opening of the Central Bank, two outstanding results were achieved, namely, the stabilization of both the value of the medium of exchange and of the prices of commodities.

CHAPTER III

POLICY OF WATCHING SILVER TRENDS

(THE SECOND PERIOD)

As the result of the silver price boosting policy adopted by the United States in July of 1934, the quotations for silver bullion began to soar to new highs. The former relationship between silver and other commodities, and the simultaneous and parallel fluctuations between the two were completely destroyed by the American silver policy. Silver alone climbed high leaving all other commodity prices far behind, a phenomenon which had not theretofore been witnessed. Naturally, a tremendous effect on silver standard countries was inevitable. In other words, the value of the medium of exchange rose so suddenly that the general price levels were brought down. From July and on, the trend became sharper as each month went by. Although the prevailing opinion in some quarters was that the United States being unskilled in such a policy would sooner or later become unable to carry it on indefinitely, and that sooner of later the sudden upward rise of silver would be halted, no one was then able to tell where the price of silver would finally settle.

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The Central Bank on its part at that time assumed the attitude of a vitally interested on-looker. Without first fathoming the real situation of silver trends, no fixed policy could be adopted. On the other hand, to leave matters take their own course meant that the unprecedented rise in the value of the medium of exchange would jeopardize the economic structure of the country. This was no light matter. The Central Bank decided that it was all well to let the currency follow in the wake of silver, but that to permit it to soar entirely in the company of silver would also entail difficulties. It, therefore, determined to take steps which would gradually divorce the currency from silver.

For similar reasons, silver standard China was unable to weather the adverse effects of this silver rise. Soon after the United States began carrying out its silver policy, China was forced to resort to the levying of a 10% export duty on silver to prevent its outflow. But with just a 10% export duty, there was the probability that when the silver quotations within China should fall more than 10% below the quotations in foreign countries, the outflow would easily over-flow the 10% barrier. Measures for making up any difference which should occur between the Chinese silver prices and those of the United States and Great Britain were therefore necessary. Accordingly a surtax in the form of a compensating duty was also levied, so that in addition to the 10% export duty, another 7% compensating duty was levied on silver exports. While this checked the outflow of silver, it also meant that China was artificially undervaluing her silver. Instead of permitting her medium of exchange to rise with the rise of silver, she equalized the effect on her economic structure by undervaluing her silver currency to the extent necessary to offset any rise.

China's lowering of silver prices affected the whole of the Orient and the silver bullion quotations in Manchoukuo also fell below the silver prices in England. To cope with this decline, the Central Bank decided on certain mitigatory measures, namely, the regulating of the fluctuation of the currency so as to limit it to one-half of the movements of silver. When the Central Bank opened its doors, the currency and silver values were identical; but silver at that time was not so dear. To approach this situation from a different angle, the Japanese yen in 1932 being somewhat higher than it is today in spite of having then already shown some signs of a gradual downward trend, the rate of exchange between Man-

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choukuo and Japan was in the ratio of 100 Manchoukuo yuan to 70 Japanese yen. Silver then became more firm, while the Japanese yen took a decided downward movement. Within the brief period of one year the difference between the respective positions of the two currencies was double of what it had been at one time. When the United States entered upon its silver policy the ratio between the Japanese yen and Manchoukuo yuan was about 100 to 100, but due to the American silver policy, the Manchoukuo yuan tied to silver went higher and higher. In the meantime, the Central Bank was attempting to carrying out its policy of limiting the movements of currency values to one-half the extent of the silver fluctuations. When the Manchoukuo yuan was about to rise to 130 in proportion to the rise in silver values, the Central Bank would peg the Manchoukuo yuan at 115. This allaying measure was a precaution taken by the Central Bank because of its uncertainty as to the extent of the future silver fluctuations yet to come.

The management of the monetary system became extremely difficult because of different policies pursued by Manchoukuo and China to cope with the situation. The very reason for making the currency values of Manchoukuo correspond with the value of Chinese money was to accommodate the convenience of the many Chinese who make up the greater percentage of the Manchoukuo population, but such a practice was no longer possible. China, on its part, had not only placed an export duty on its silver, but went to the extent of undervaluing it. Manchoukuo, on the other hand, had divorced its currency from silver. The result was manifested in the dislocation of the exchange rates of Manchoukuo money. In Japan, the Manchoukuo currency fell from 115 to 110 yen, while in China 100 Manchoukuo yuan were worth only 70 to 75 Chinese yuan. People going from Manchoukuo to Tientsin in having 100 yuan drop to 70 yuan complained that the Manchoukuo yuan had declined in value; people in Japan, on the other hand, declared that 110 Japanese yen for 100 Manchoukuo yuan was too high.

In spite of the Central Bank's control exercised to limit the fluctuations of the currency values to one-half the movements of the silver prices, silver continued to rise as compared with the other commodity prices, which had dropped somewhat. Thus taking 100 as the index of commodity prices at the time the Central Bank began its functions, commodity prices which had there-

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after remained stabilized for some time, began to go down gradually until it had practically reached 90.

This state of affairs continued from July, 1934 to March, 1935, which is the so-called second period. In other words, it was the period berween the time the United States launched its silver policy until March of last year, during which the currency was neither directly tied to silver nor entirely divorced from it. It was a period of watchful waiting.

CHAPTER IV

STABILIZATION OF COMMODITY PRICES AS THE GOAL

(THE THIRD PERIOD)

In the middle part of April of last year, the fluctuations in the price of silver bullion became unusually violent. The London silver quotations during that month jumped from 32 pence to 36 pence within a few days, and then fell back to 33 pence in another day or two. To continue the policy of permitting the currency to fluctuate even to the extent of one-half of the fluctuations in silver values in the face of this situation meant an inevitable instability in currency values. The situation, therefore, could no longer be permitted to run its own course, and in the middle of July of last year, the medium of exchange was absolutely divorced from silver. The currency now was no longer subject to the influence of silver fluctuations, but it also meant the abandoning of the criterion which had formerly been employed in adjusting currency values. What then would be the standard of value to which the currency could be adjusted in the future? It was then suggested that the management of the monetary system be guided with stabilization of commodity prices as the main objective, for stabilization of commodity prices would mean that the life of the people would be steadied. When the Central Bank began its operations the commodity price level was about 10% lower than it had been, but that level was selected as the basis of stabilization. Currency values were to be so controlled as to effect no change in the prices of commodities. But how was such a result to be achieved? This was to be accomplished by pegging foreign exchange rates at such

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points at which stabilization of commodity prices could be attained; inasmuch as the value of a currency is reflected in its foreign exchange rates, it was believed that stabilization could be effected by operations which would eliminate fluctuations in the rate of exchange. In other words, it was a plan whereby the currency was to be permitted to take its course as long as the exchange rate did not fluctuate to any noticeable extent as the result of foreign exchange transactions, and as long as commodity prices remained unchanged.

This policy was pursued from April and on. It was a policy which could not be very well comprehended by the general public. Heretofore they had been able to gauge roughly the movements in currency values by watching the movements of silver, but now neither the rise nor the fall of silver prices had any influence whatsoever on the currency. In foreign exchange transactions with foreign countries, especially with Japan, the rate of exchange had fluctuated as silver fluctuated in times past, but now it began to show practically no fluctuation at all. Any fluctuation that did occur was a movement in step with the foreign exchange value of the Japanese yen. Dealers in foreign exchange, especially those with exchanges in Mukden, Hsinking, and Antung, who had dealt in Japanese-Manchoukuo exchange were driven out of business. It was by large sales and purchases of Japanese yen and Manchoukuo yuan and the fluctuations in the exchange rates effected by these operations that these money changers had made their profit. But the fluctuations in the rate of exchange which had previously occurred in the ratio of one-half the silver movements, now stopped entirely; and came to rest at a point which in terms of a ratio was 109 Manchoukuo yuan to 100 Japanese yen, thus eliminating any profit from foreign exchange rate fluctuations.

The question then arose as to where this currency now entirely divorced from silver would really go. The vast majority of the people took it for granted that it would finally head towards parity with the Japanese yen. Moreover, the prevailing opinion among the leading business men in Japanese business circles believed that it would be better if the exchange values of both the Japanese and Manchoukuo currencies should become the same. The speculators likewise seemed to entertain a unanimous opinion that the Manchoukuo exchange rate would decline without fail from 109 to 100. They accordingly began selling Manchoukuo yuan and

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simultaneously buying Japanese yen, and the result of their operations tended to drive the yuan down closer and closer to the level of the yen.

But where were the fundamental reasons why the value of the Manchoukuo yuan came to coincide with the Japanese yen? The prime factor was the fact that both currencies were linked to the one and same standard, namely, a standard which would stabilize commodity prices. The Japanese yen was regulated so as to effect indirectly the stabilization of commodity prices. As explained by the Japanese Minister of Finance before the Diet, the Japanese medium of exchange was no longer linked to the dollar, but rather to the pound sterling. The state of the pound sterling was in turn in accordance with the explanation of the Chancellor of the Exchequer before the Parliament when he stated that notwithstanding terrific drops in the value of the pound sterling on the international exchange, there had been no decline in its domestic value, because the prices of commodities had been stabilized. As Great Britain, Japan, and Manchoukuo were thus pursuing a common policy now prevalent all over the world, namely controlling the medium of exchange for the purpose of stabilizing commodity prices, the steps toward stabilization of their respective currencies were also in the same and parallel directions. But as Manchoukuo undertook such control when the Manchoukuo yuan was still 8 or 9 points higher than the Japanese yen, the Manchoukuo currency was likewise stabilized at a point 8 or 9 points higher than the Japanese yen.

This stabilization was to be soon disturbed, principally through the universal expectation of the people that it would fall to a parity with the Japanese yen. At any rate, the 8 or 9 point difference between the two currencies began to diminish step by step. When this fall was accelerated by a newspaper report that a sudden drop was imminent, the Central Bank was forced to amass and purchase large quantities of foreign bills to prevent a violent fall in currency values. In order to counter-balance the drop in the exchange rate which dropped as much as three yen in one fall, the Bank had to expend as much as several million yuan of its funds and over a week of its time. Notwithstanding the Central Bank's utmost efforts, however, the Manchoukuo yuan continued to fall until on September first, it had finally reached a level on a par with the Japanese yen.

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After the two currencies became the same yen for yuan in value, no artificial measures were necessary to maintain this rate of exchange, nor did any one seem to apprehend a fall below the parity level. The rate had really stabilized itself. On September first, the Central Bank did not perform any exchange controlling operations ; nor did any transactions on the Mukden Exchange (either sales or purchases) take place. No one seemed to want to sell Manchoukuo money, and no one seemed to want to buy Japanese money. In short, the glamour of exchange manipulations was gone, and the currency had come to rest as if it had reached the ideal point for its stabilization. It had been expected that the downward momentum would carry it slightly below the parity line, but curiously enough no such phenomenon occurred during the two months of September and October.

During these two months the exchanges completely suspended their operations ; members of the exchanges went out of business one by one, especially those in Mukden whose activities had been confined solely to money changing. It was in September that the question of whether any relief would be extended to those who had thus been thrown out of employment was first raised. They demanded a payment of 500,000 yuan from the Central Bank alleging that such a sum was owing them as compensation for suspending their operations and as recognition of their meritorious service in aiding in the stabilization of the currency. Regardless of the merits of the allegations, out of sympathy for the predicament in which those thus thrown out of employment were then in, relief was undertaken through the Antung Office.

Thus the period of controlling this currency which had been entirely divorced from silver with stabilization of commodity prices in view lasted through July and August. Although management of the currency continued, from September first, it entered into a new period in which the currency reached and was maintained at a parity with the Japanese yen.

This stabilization was not achieved, however, without some misgivings and expressions of opinions from expert quarters. Some said that parity had been reached too early. Others queried whether the downward trend of the Manchoukuo yen were due to natural causes, and if so, would not artifically breaking its fall at a par with the Japanese yen lead to difficulties in the future? Why not let the Manchoukuo currency fall to its own liking?

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Despite interrogations of this nature, it was the belief of the authorities in the Central Bank that stabilization at a parity level with the Japanese yen was the result of natural causes, and not the consequence of artificial brakes applied. Naturally, if in spite of its continued decline, its fall were artifically checked, it would merely mean a temporary postponement of the evil day. In reality, however, the fact that after the Manchoukuo yuan had fallen from a point 8 or 9 points above the Japanese yen to a point of parity with the latter, even speculators ceased their manipulations would seem to indicate that the stabilization was a natural phenomenon. Stabilization was both the common wish and result of the general public's will.

CHAPTER V

PARITY WITH THE JAPANESE YEN

(THE FOURTH PERIOD)

The first period was the two year period from the time the present monetary system of Manchoukuo was inaugurated to and through June, 1934 ; it was the period when the value of the medium of exchange was linked to silver. The second period was from July, 1934 to March of the following year. This was a period in which the fluctuations of silver prices began to play their effects on the stability of the currency system. Likewise was it a period in which preparations for departure from silver were made, and control or management of a currency slightly but not totally removed from silver was undertaken. The third period from April through August, 1935, was characterized by the absolute divorce of the currency from silver and by an out and out managed currency control. The fourth period commenced in September of 1935, and is the period in which parity with the Japanese yen was its paramount feature.

STABILITY OF MANCHOUKUO CURRENCY IN THE LIGHT OF INTERNATIONAL PAYMENTS

Is the present par of exchange permanent in its nature? In other words, does the currency of Manchoukuo possess the quali-

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ties requisite to stability? It is believed that it does possess such essential qualities.

No currency can be stable for any given length of time unless an equilibrium in international payments is maintained, but in the case of Manchoukuo's international payments, the statistics for 1934 and 1933 showed the payments coming into the country as exceeding the outgoing payments. The balance of trade, however, had been unfavourable since the Manchurian Incident; in 1935, Manchoukuo's imports exceeded her exports by some 190,000,000 yuan; in 1934, the excess was also about 190,000,000 yuan; and in 1933, it was some 110,000,000 yuan. While imports thus outstripped exports subsequent to the Incident, the Japanese continued investing over 300,000,000 yuan per annum. Although the figures for last year have not yet been compiled, in 1934, such investments were around 300,000,000 yuan and in 1933, it totalled about 330,000,000 yuan. These investments offset the adverse balance of trade, so that payments coming into the country exceeded the outgoing payments by 70,000,000 to 80,000,000 yuan.

If this equilibrium was obtained only after bringing these tremendous investment figures into the calculation, what would happen if the investments were to cease? The answer to this inquiry is that previous to the Manchurian Incident, Manchuria's exports always exceeded her imports. Her total trade amounted to around 700,000,000 taels, of which 400,000,000 taels were exports and 300,000,000 taels were imports, leaving a favourable balance of 100,000,000 taels. The reason why the statistics show an adverse balance of trade after the Manchurian Incident (the figures for 1935 and 1934 were approximately 400,000,000 yuan for exports and 600,000,000 yuan for imports) is due to the fact that the heavy investments made by Japan were also enterprises largely undertaken by Japanese. Were it not for these investments, the increased imports would not have been made.

Moreover, the favourable balance of trade in times past may be traced to the fact that over 90% of the inhabitants of Manchuria were agriculture pursuing people; Manchuria was an agricultural country in every sense of the word. There was really no industry to speak of. The only three industries of any moment were the extraction of oil from soya beans, the distillation of spirits from kaoliang, and the milling of flour which is extensively consumed. The others were mere household industries. In addition, there

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were industries developed by Japanese capital along the South Manchurian Railway, but these have no bearing on our particular problem here. Manchoukuo today is still in the main an agricultural nation. The products of her farmers constitute her stock in trade. To look at the situation from the farmer's economy, he sells what he has grown and buys with what he realizes from his sale. To look at it in terms of national economy, Macnhoukuo's trade consists of selling the products which she has grown and purchasing only to the extent that she has been able to sell. Her exports under this given condition cannot help but exceed her imports. When industry is developed in rapid fashion, Manchoukuo's economy will become more intricate, but at the present time Manchoukuo's economy is still a comparatively simple one. Of course industrialization of Manchoukuo is taking place today as the result of Japan's enormous investments. These, however, are mainly Japanese enterprises, and they do not represent the awakening of a national industrial state of mind on the part of Manchoukuo's nationals.

Thus, even if Japanese investments in Manchoukuo should cease, the economic order of Manchoukuo will not be jeopardized, but this is a far-reaching question which cannot be cursorily generalized. But limiting the statement to just the question of international payments, while the cessation of Japanese investments may cause a state of temporary confusion, yet as far as the fundamental factors go, Manchoukuo need not worry as to the state of her international payments.

STABILITY OF THE CURRENCY IN THE LIGHT OF THE GOVERNMENT'S FINANCIAL POLICY

We turn now to the examination of the stability of the currency in the light of the Government's financial policy. The fiscal year of Manchoukuo used to begin in July and end in June of the following year. During the latter half of last year, or the first half according to the Manchurian calendar, the fiscal year beginning in July was terminated as of the close of December, and from the first of this year the fiscal year was made to coincide with the calendar year. The budget for this year is 210,000,000 yuan, or only one-tench of the Japanese Government's budget, but even so, the Manchoukuo Government is able to pursue a sound policy

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without going into the red. This year's budget shows a debt of 10,000,000 yuan, but this belongs to the Central Bank. According to the explanation of the Government, this debt represents so-called "industrial-capital" and hence is not a real deficit. The Government's energetic efforts to preserve an equilibrium in international payments is also gathered from the explanatory notes accompanying the budget.

Typical of the Government's policy in this respect is the manner in which the water-works of the cities of Harbin and Mukden (each costing 5,000,000 yuan and now nearing completion) were financed. The purchase of iron pipes and other necessary construction materials had to be made in Japan. This meant an outgoing payment in terms of international payments. Therefore, notwithstanding the Central Bank's having a fund of about 40 to 50 million yuan that could have been loaned out two years ago, the Government floated a loan of 10,000,000 yuan through a bond issue in Japan. The proceeds of the bond issue were then loaned to the two cities by the Government.

This procedure of issuing bonds when undertaking a foreign loan of even as small a sum as 10,000,000 yuan shows the attention being given to international payments; it also shows how the budget is being framed with an emphasis on maintaining stability in the value of the currency. A monetary inflation is an improbability, and it is believed that we need entertain no fear as to the stability of the currency from this angle.

THE CENTRAL BANK'S OPERATIONS AND CURRENCY STABILITY

The efforts of the Central Bank for the past four years have been expended in maintaining the value of the currency. In the early stages of its endeavors, it suffered a slight diminution of its specie reserve, but today whatever was then lost has been regained, and perfection in its specie reserve is being approached closer and closer each day. The Bank has been very discreet in not taking any steps approaching inflation, for the economy of Manchoukuo, unlike the complex economic structure of the industrially developed advanced countries like Japan, the United States, and Great Britain, is a simple one; any inflation under such circumstances will directly and instantly affect the currency.

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To begin with, there are no industries which have even temporarily ceased their operation as seems to have been the case in some instances in Japan and the United States. Moreover, there is no unemployment in Manchoukuo. Labourers have been brought from Shantung, Hopei, and Korea; and Manchoukuo may be said to be a country inclined towards feeling a shortage of labour rather than an over-supply of it. Even the farmers of Manchoukuo are hiring foreign labourers during the farming seasons. For instance, many labourers from Shantung work for the farmers during the farming seasons, and when that is over they go elsewhere. The extensive development of Manchoukuo's industries cannot be attained without first getting a more adequate supply of labourers.

Inflation cannot be carried out to any great extent in the country under these conditions. Instead the Government is devoting its energy to promoting both the demand and supply of the country's agricultural products, differing in its objective from that of the highly industrialized advanced countries.

In short, the stability of the currency of Manchoukuo may be expected to continue in the light of the past history of the Central Bank's operations and no solicitude in that regard seems called for.

CHAPTER VI

FOREIGN EXCHANGE CONTROL AND UNIFICATION OF THE NOTE ISSUING AUTHORITY

If any favourable economic effect from the parity of exchange between Japan and Manchoukuo was to be obtained, it could only come from a long time maintenance of such parity. For this reason a sound course had to be charted, but because the two measures necessary to perpetuate a stable exchange could not be carried out without the joint action of Japan, the cooperation of Japan became the first requisite in that direction.

The first of these two measures was the control of the foreign exchange. In line with the tremendous efforts being made in every country to balance its international payments, Japan had enacted the Foreign Exchange Control Law by which a strict supervision over foreign exchange activities was exercised. Manchou-

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kuo, on the other hand, had done without such a law, but the necessity for such a measure became gradually felt. Although no immediate action was contemplated, still there was a need for improving the Japanese-Manchoukuo foreign exchange relations along sound lines. The object of a supervisory measure would be to prevent the flight of Manchoukuo capital, and to prevent speculations in foreign exchange. While the records of the Central Bank date back only to the founding of the new state, there was evidence of Chinese capital having taken flight from Manchoukuo at the estimated rate of 100,000,000 yuan per year. Of course, this was immediately after the revolution and the creation of the new state, and therefore, such a phenomenon is not expected to occur in the future. At the same time, some kind of control over foreign exchange was necessary. And in view of the fact that Japanese held extraterritorial rights in Manchoukuo, it meant that the mere enactment of a foreign exchange control law by the Manchoukuo Government would not be effective in actually regulating the efflux or influx of money out of or into the country. The cooperation of the Japanese Government, therefore, was a prime requisite in any effective enforcement of such measures.

The second measure which was essential was the unification of the note issuing authority. In the past, Japanese and Manchoukuo moneys were altogether of a different kind. Most of the extensive Japanese enterprises in Manchoukuo carried on their transactions in Japanese yen. For instance, large organizations like the Japanese Army and the South Manchurian Railway dealt in terms of the gold Japanese yen. Japanese residents in Manchoukuo running small retail shops or hotels quoted their prices as so many Japanese yen. Likewise were the freight rates of the South Manchurian Railway. But as the rate of exchange fluctuated from day to day, Manchoukuo money was used. In other words, in transactions with Japanese, Japanese money was used, and in transactions with Manchoukuo nationals, Manchoukuo money was utilized. One, therefore, used both a Japanese and a Manchoukuo quotation.

After the quotations for both currencies became one and the same on September first, both Japanese and Manchoukuo money came to circulate interchangeably. From the fact that these two currencies now circulated not only side by side but interchange-

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ably, a unification in the authority of issue became necessary in order to definitely place the responsibility for regulating and stablilizing the value of the currency. In short, it was to limit the power of issuing notes to just one bank. This was the second matter in which Japanese cooperation became necessary. To permit both the Central Bank and the Japanese banks to issue notes was not a satisfactory situation at all. Some solution through the cooperation of the Japanese authorities was called for.

The Government of Manchoukuo, therefore, carried on a series of conferences with the authorities in the Japanese Government. The approval of the Japanese Government was obtained, and statements outlining their respective decisions with reference to the stabilization of the currency were simultaneously issued on the same day in Japan and in Manchoukuo. The statements pointed out that for two months from September first, the two currency values had in fact been on a par, that it was still at par on the fourth of November, and that a policy with a view to assuring the maintenance of this par of exchange was essential.

The Japanese statement was divided into three points :

(1) Whereas the main purpose of establishing the Central Bank of Manchou was to set up a mechanism for the control of the currency and finance of Manchoukuo, and whereas the Central Bank had demonstrated its ability in adequately accomplishing this purpose, the mission of the Japanese bank-notes circulating in Manchoukuo had itself changed in the course of history, and to permit their further circulation would be merely to add confusion to the monetary system of Manchoukuo and hence adversely affect the stability of the currency on the international exchange. It was, therefore, believed expedient to convert at some appropriate time, all of the Japanese bank-notes then in circulation into the currency of Manchoukuo, hence achieving a uniform medium of exchange as well as stabilizing its value.

(2) In attaining this foregoing uniformity in the currency, not only the best possible measures were be employed in cementing the economic relations between the two countries, especially with reference to preventing any harmful effect that might result to Japanese investments, but also extraterritoriality was be abolished and the administrative powers of leased territories regulated or transferred. (The Kwantung Leased Territory was excluded from the sphere of this unified currency policy.) Furthermore, the

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possible effects upon Japanese banks after uniformity in currency had been achieved had to be carefully weighed, and only after adequate preparations had been effected, should this policy be gradually carried out.

(3) The following were the practical steps which were to be taken in effectuating this policy. The activities of the Bank of Chosen were to be regulated with a view to facilitating the stabilization of the value of the Manchoukuo yuan, and to bringing its business operations into harmonious relations with the Central Bank's. Supervision of Manchoukuo's foreign exchange was to be practised with due consideration of Japan's foreign exchange control policy. So far as possible, the resident Japanese officials in Manchoukuo, the Japanese Army, and the South Manchurian Railway were thenceforth to make payments in Manchoukuo currency.

The Manchoukuo statement in its essential features were that in appreciation of the considerate cooperation extend by the Japanese Government, Manchoukuo would endeavor to put both its finance and monetary system on a firm basis, that it would endeavor to achieve uniformity in its monetary system, permit the development of Japanese banks so long as such development was consistent with this fundamental policy, to promote Japanese-Manchoukuo trade, and to establish and develop Manchoukuo industries.

Following these simultaneous announcements by the two Governments, confidence in the Manchoukuo currency has become more firmly embedded. The foreign exchange rates between these two countries is practically without change, and greater stability in value has been realized.

CHAPTER VII

THE CONSISTENCY OF MANCHOUKUO'S MONETARY POLICY

The new monetary system whereby the values of the currencies of both Japan and Manchoukuo were made to coincide won even the confidence of the greater part of the Manchoukuo population, a people who had heretofore always thought of money as

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meaning silver. The two factors responsible for this result were : (1) the violent fluctuations in silver prices, and (2) the chaos into which the Chinese monetary system fell and the monetary reform necessitated as the result thereof.

The plight into which the monetary system of the neighboring country was plunged led the Manchoukuo people to an appreciation of the monetary system of their own country. When China placed a heavy duty on silver to check its outward flow, her paper currency likewise dropped in value with silver. Because of China's forced measures, silver began to be smuggled out of the country. Silver was unduly low in value in China ; if it could be taken to Europe or America, it could be sold at extremely attractive prices. Silver which slipped out of China via Shanhaikwan and Antung amounted to as much as 3,000,000 yuan per month. This caused the rise of a rumour in Japan that the Manchoukuo monetary system was being imperiled by the large drainage of silver from the country. There was no basis for such a rumour, however. Unlike the situation in China, silver was no longer the medium of exchange in Manchoukuo. The currency of Manchoukuo was then a managed currency with bank-notes being used as the actual medium of exchange. Merely because the silver of another country flowed out had no affect whatsoever on Manchoukuo's monetary system.

As there was neither a silver market in Manchoukuo nor was silver a medium of exchange, the silver smugglers would make remittances to Tientsin or Shanghai, where silver was still the medium of exchange. Then with the proceeds, silver could be very easily purchased on the open market, and later smuggled out of the country.

These operations really drove home the fact that in Manchoukuo there was a difference in the values of its currency and silver to the common people. On the whole, they felt at ease, however, in view of the fact that 100 yuan in the currency of Manchoukuo would net from 70 to 80 yuan in Tientsin. In terms of money, they felt rather envious of the exchange rate of the Chinese yuan, but inasmuch as commodity prices in Manchoukuo had been stabilized and no change in their purchasing power had occurred, there was no cause for complaint. Although the average wage of the policemen in Manchoukuo has been 15 yuan since the founding of the state, no difficulty seems to be have been experienced in

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their household economy. And with both prices of commodities and the value of the currency stabilized, there should have been no difficulty on the part of consumers. The Chinese officials living in Port Arthur were well aware of the fact that the only handicap, if it can be called a handicap, was when they wished to make remittances to China.

On the same day as the issuance of the simultaneous statements by the Japanese and Manchoukuo Governments, China effected a reform of her monetary system. This took the form of her currency being completely taken off silver, and being pegged to the pound sterling at the rate of 1 shilling 2 pence to the yuan. All the silver yuan were then to be turned into the banks and converted into paper yuan, yuan for yuan, i.e., one paper yuan was issued in exchange for one silver yuan. The silver thus impounded became state property. To further eliminate any disparity between the silver and paper yuan, the latter were declared legal tender, that is all debtor-creditor relationships which were in terms of the old currency could now be discharged by a yuan for yuan payment in the new currency.

This latter measure was similar to steps once taken in Manchoukuo when a disparity between the silver and paper currency arose. The insolent people began transacting loan operations in silver yuan alone ; for instance, pawn-brokers in making payments would make payments in silver yuan, and people depositing silver money would demand agreements whereby the return payments should likewise be made in silver yuan. Thus by the time the paper currency was entirely divorced from silver, a certain amount of disparity existed. The Government of Manchoukuo thereupon promulgated a law declaring the notes of the Central Bank legal tender, and making all loans or obligations in terms of silver currency legally dischargeable by payments in the Bank's notes. Of course, this was not without the usual objections of capitalists.

The Chinese measure accompanying their monetary reform went a step further than this action taken in Manchoukuo. Following the example of the United States with respect to the "Gold Clause", China abrogated the "Silver Clause" in all pre-existing contracts, permitting their discharge by a yuan for yuan payment, and declaring the possession and payment of silver illegal. This action on the part of the Chinese Government caused the exchange rate of the yuan in Tientsin to drop to almost the same

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level as the Manchoukuo yuan. In terms of pounds sterling, the Manchoukuo yuan commanded 1 shilling 2 pence, while the Chinese yuan was now equivalent to 1 shilling 2½ pence ; a net difference of just a half-penny. This then meant another sudden movement on the part of the Chinese yuan.

The currency of Manchoukuo, on the other hand, has down to this very day followed a consistent course. Some people have remarked that the monetary reforms in China were modelled on the Manchoukuo patterns ; while others have said that while the results respectively reached by both Manchoukuo and China may be the same, Manchoukuo achieved her end without causing as much confusion and consternation. Whereas the monetary system of China, which was the home of the silver standard, went to pieces, the Manchoukuo yuan remained stable. Confidence in the Manchoukuo yuan was won in all quarters ; and this was due to the extreme highs and lows registered in the silver quotations in the United States, and to the resultant confusion in Chinese economy that necessitated a monetary reform.

The greater part of the specie reserve of the Central Bank is of gold bullion as the result of a law extending the sole monopoly of gold bullion in Manchoukuo to the Central Bank. Last year, this gold reserve amounted to 13,000,000 yuan. It is believed to be still higher at the present time in view of its yearly increase. Silver bullion and deposits in foreign banks make up the remainder of the specie reserve, which amounts to 90,000,000 yuan in total. This total is further augmented by about 30,000,000 yuan in specie holdings in foreign countries. For a country whose notes in circulation are no more than 170,000,000 yuan, this is an unusual sum for a specie reserve. The fund for equalizing international payments is likewise on the increase.

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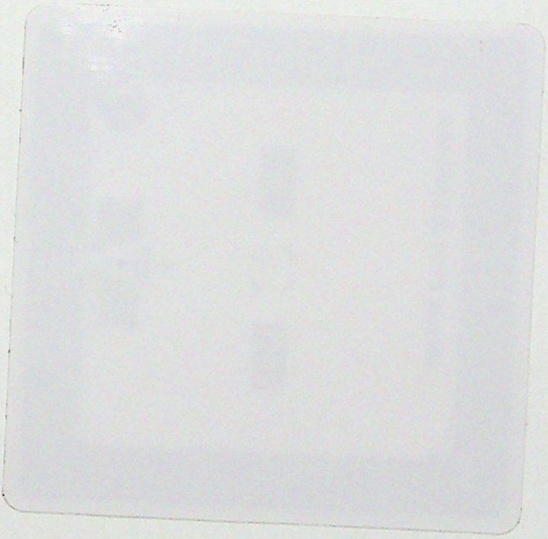

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