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Abstract

From 1906 until 1931, Manchuria – Northeast China - was a complex patchwork of Chinese, Japanese, and Russian spheres of control. Since political authority was fragmented, none of the governments was capable of establishing a central bank with a monopoly over the money supply. Multiple currencies were in use, ranging from strings – *tiao*- of traditional Chinese copper cash, to silver dollars (*yuan*) from Mexico, China, and Japan, to Russian rubles (which crashed in value after the 1917 Bolshevik Revolution), and miscellaneous paper currencies of varying stability. The modern banks established under national and private auspices to serve the commercial needs of the burgeoning economy found themselves without central regulation, resulting in an unusual situation of competitive “free banking.” This case is interesting as an example of rapid economic growth despite the costs of a chaotic monetary regime. Historical sources, including the Chinese Maritime Customs reports, contemporary yearbooks, and the South Manchuria Railway (*Mantetsu*) research reports, indicate that the combination of modern and pre-modern currencies and financial institutions managed to serve the needs of the different elements of society, from the tiny household purchases made in copper coins, to large commercial transactions made in silver ingots, or silver dollars, or in silverbacked *yuan* notes. Furthermore, there were well-established informal credit practices, based to a great extent on personal relations – *guanxi* – that circumvented much of the need for modern financial instruments.

JEL Classification Codes:

Keywords: China, currencies, free banking, Manchuria

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Currencies, Identities, Free Banking, and Growth in Early Twentieth Century Manchuria¹

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I. Introduction

Early twentieth century Manchuria² - “the Cockpit of Asia”³ - was the site of multifaceted conflict: Conflict over political and military control between the weak Chinese state and the imperialist forces of Japan and Russia, and conflict between modern economic institutions and traditional Chinese practices. Each of these conflicts was paralleled in Manchuria’s maze of currencies and financial markets, which reflected the political objectives of the modern competitors, and the resilience of pre-modern Chinese monetary institutions, as well as the monetary needs of the rapidly growing economy. Prasenjit Duara has commented that “Manchukuo appears as a place of paradoxes,”⁴ and this is also true of the earlier monetary situation, which was chaotic and inefficient, yet in practice proved capable of supporting strong growth in the Manchurian economy. This paper will focus on the period from the beginning of the twentieth century, when new railways brought Manchuria into the modern world, to 1931, when the Japanese military seized control of all Manchuria, and moved quickly to establish a centralized modern monetary system. During these years, the traditional Chinese currencies, based on silver and copper and supported by pawn shops, “money shops” (*qian zhuang*), and Shanxi remittance banks, operated alongside modern banks established by Europeans, Americans, Chinese entrepreneurs and governments, and Japanese companies. By the 1920s, the modern banking sector constituted a fascinating example of the phenomenon of “free banking,” a

situation in which banks function under little or no regulation, issue their own paper currencies, and are constrained only by the forces of market competition.

From 1906 until 1931 Manchuria was a complex patchwork of Chinese, Japanese, and Russian spheres of authority. Northern Manchuria was dominated by the Chinese Eastern Railway, which remained under Russian control until the Russian Revolution of 1917. In the 1920s the railway was managed by a joint Chinese-Soviet board, but it became a subject of dispute and finally the cause of an undeclared border war between China and the Soviet Union in 1929. Meanwhile, Japan held the Liaodong Peninsula, the South Manchuria Railway, the strip of land through which the SMR ran, and a host of smaller rail lines, mines, and other industrial and commercial projects.

In addition to Russian and Japanese enterprises, there also emerged a growing number of railways under Chinese control, including the important Beijing-Shenyang line. In addition, most commerce, agriculture, and light industry were Chinese-owned, and the civil government and military forces in all but the leasehold areas were also Chinese. The Chinese government was not, however, the national government, but the Fengtian government, the regime of the warlord, Marshal Zhang Zuolin. When Zhang was assassinated in 1928 by elements of the Japanese Army,⁵ he was succeeded by his son Zhang Xueliang, the “Young Marshal,” who was driven out of Manchuria with his troops by the Japanese Army in the so-called “Manchurian Incident” of 1931.

Table 1. Major Currencies Circulating in Manchuria, 1929

Currency	Exchange rate per 100 silver yuan	Circulation area
Silver yuan (<i>dayang qian</i>) - silver dollar coins issued by central government, generally stable	yuan 100	All Manchuria
Silver yuan piao (<i>dayang piao</i>) – dollar notes issued by various banks based on silver yuan coins, generally stable	yuan 100	Liaoning Province and along the railways
Feng piao - yuan notes issued by Manchurian government, very unstable	yuan 6,000	Liaoning Province
Harbin dayang piao - silver yuan notes issued by Harbin banks, fairly stable	yuan 140	Harbin and Chinese Eastern Railway Zone
Heilongjiang dayang piao – silver yuan notes issued by Heilongjiang Province government, generally stable	yuan 140	Heilongjiang Province
Jilin Guan Tie – notes based on strings of copper cash, issued by official bank of Jilin Province, fairly stable	Tiao 20,000	Jilin Province
Jilin Yongcheng dayang piao – silver notes issued by official bank of Jilin Province, fairly stable	yuan 145	Jilin Province
Xiaoyang qian (<i>jiao</i>) - silver coins smaller than 1 yuan, issued by provincial mints, debased but relatively stable	yuan 114	All Manchuria
Yokohama Specie Bank silver yen notes - issued by Yokohama Specie Bank branches in Manchuria, stable	yen 100	Guandong Leased Territory (Liaodong Peninsula), SMR Railway Zone
Bank of Chosen (Korea) gold yen notes - issued by Bank of Chosen branches under Japanese supervision, stable	yen 100	Guandong Leased Territory, SMR Railway Zone

Sources: Sakatani, *Manchuria*, pp. 20-31. See also “The Currency situation,” in *Chinese Economic Journal* 1, 5 (May 1927); Hitano Kenichiro, *The Japanese in Manchuria*, pp. 265-338.

Note: The “normal” exchange rate for the silver yuan was 0.50 U.S. dollar and 1.00 Japanese yen.

II. Currencies and Identities

Manchurian Identity

The currencies in circulation in Manchuria in the early twentieth century reflected the recent histories and current conditions of the nationalities that issued them. The identity of

Manchuria itself was complex and ambiguous. Although formally a region of China, even its Chinese officials, led by Zhang Zuolin, challenged the authority of the Chinese national government, while both Russia and Japan openly asserted elements of sovereignty in the areas under their control. There were also deep divisions in modes of economic activity and culture, ranging from the nomadic herding lives of the Mongols in the northwest, through the traditional, intensive agriculture practiced by millions of Chinese farm families in the central and southern plains, to the industrial lives of most Japanese, Russians and many urban Chinese. This diversity was reflected in the range of currencies in use, from the ancient form of silver “shoe” ingots, which were still used in rural and border areas as a means of storing value and for major transactions,⁶ to modern paper currencies, issued by the banks of China, Japan, and Russia. A Russian author noted in the early 1920s that, “A characteristic trait of the currency problem in North Manchuria was and remains the fact that *foreign monies* – Russian roubles [sic.] in the beginning, and afterwards Japanese yen – widely circulated here simultaneously and side by side with Chinese specie.”⁷

Chinese Identity

The most complex identity in the Manchurian ethnic mix was that of the Chinese, who made up the great majority of the population. The southern end of Manchuria had been inhabited by Chinese farmers since the earliest periods of Chinese civilization and Chinese administrators and soldiers had formed part of the Manchu force that conquered China Proper in 1644.⁸ The Chinese population of the early twentieth century consisted primarily of farmers and laborers, millions of whom had immigrated from the North China provinces of Shandong and Hebei.⁹ As in other parts of China, the population also included traditional merchants and artisans, as well as

people engaged in modern administrative and economic activities, including mining, industry, railways, modern commerce, and modern financial institutions.

Most of the currencies in Manchuria were Chinese and reflected China's extensive monetary history, as well as the unstable and fragmented political condition of the country, and the economy's long process of adjustment to modernity. The major traditional currencies were the silver "shoe" ingots, known as *yuan bao* or *yin ding*, and the copper coinage which originated as the ancient form of the round copper "cash" or *qian*, commonly strung on cords through the square holes in their centers and exchanged in units of "strings" or *tiao*, which were little used by the 1920s.¹⁰ The traditional currencies were not effectively standardized. The silver ingots came in different sizes, weights, and quality of silver. Their value was given in terms of *liang*, Chinese ounces of pure silver, rendered in English as "tael," a term of possible Malay origin.¹¹ While the Chinese ounce – the *liang* – was officially set at 37.8 grams by the Republican Government, the tael varied in definition. The most widely used tael measures were the *Haiguan* or Customs tael, at 32.797 grams (583.3 troy grains) of silver, and the *Kuping* or Treasury tael, used by the Beijing Central Government, at 37.31 grams (575.83 troy grains). In addition, major ports and commercial centers often used their own local tael measures, including those of Shanghai, Tianjin, Guangzhou, and Yinkou.¹² The value of the strings – *tiao* – of copper cash was determined by their content of copper, which was often adulterated; the number of coins on a string, which was commonly set at 1,000, would be reduced when coins were removed for exchange fees, or to allow for a shortage of currency in a particular locality. In the late nineteenth century, several provinces in North China considered a *tiao* to contain around 500 cash, while a standard *tiao* in Manchuria at the same time was only 160 cash.¹³

Modern Chinese currencies included silver dollar coins (*yuan*), silver subsidiary coins (*jiao*), and the copper coins without holes known as *tong yuan* or *tong zi*, which were first produced in South China near the end of the nineteenth century and had nearly replaced the traditional copper cash coins by the 1920s. The relationship between the copper and silver coins fluctuated with the market values of the two metals.¹⁴ Paper currency was issued by various official and private Chinese banks in Manchuria, the most important based on the silver coinage and generally referred to as *yang piao*, or “foreign notes.” Notes were also issued, primarily in Heilongjiang and Jilin, based on the modern copper coinage, called *tong yuan piao*, and on the *tiao*, strings of the traditional copper cash, called *guan tie*. Notes based on the subsidiary silver coinage, called *xiao yang qian* – “small foreign coins” – were also issued by some merchants and *qian zhuang*, traditional banks or “money shops.”¹⁵

The best-known of the Chinese paper currencies in Manchuria was the Fengtian dollar, or *feng piao*. These were *yuan* notes first issued in 1917 by the Three Eastern Provinces Bank on behalf of the Fengtian Provincial Government in a well planned effort to stabilize the currency situation. In the early years of their existence, when around 20 million *yuan* were believed to be in circulation, the *feng piao* were securely supported by reserves and became the most widely accepted notes throughout Manchuria.¹⁶ Beginning in 1922, however, as Zhang Zuolin’s armies engaged in military conflicts with his rivals in China Proper, the number of notes issued rose exponentially, reaching an estimated total of over 3 billion *yuan* by the end of 1929. Since the notes printed after the early issues had no real backing, their value rose and fell with Zhang Zuolin’s fortunes, but eventually declined to an exchange rate of 11,800 *yuan* in *feng piao* to 100 *yuan* in silver in 1930.¹⁷

The widely diverse elements of the Chinese monetary system in Manchuria reflected the equally diverse economic characteristics of the Chinese population, which was pulled between the reliable, time-tested practices of China's past and the efficient but not necessarily reliable ways of industrial society. While the money supply included modern instruments, such as the Fengtian dollar, originally backed by loans from the Japanese Bank of Chosen, and later buttressed by bond issues, it also retained some of the most ancient forms of Chinese money. And while no single element of the pre-modern system served well all three of the functions of modern money – medium of exchange, store of value, unit of account – the functions were performed by the system as a whole. The silver “shoe” ingots, which were inconvenient for commerce and inconsistent in value were still regarded by many farmers as the most reliable means of saving the value of their soybean crops. At the smallest end of the currency range, the copper coins and paper *tiao* notes met the modest daily purchasing needs of much of the population, while the partially modern *tael* measures served quite effectively as accounting currencies for much of the region's large scale commerce and government financial transactions.

One of the most interesting of the Manchurian currencies was the Yinkou Transfer *Tael*, a purely book-keeping unit that apparently originated in the nineteenth century in the port of Yinkou, whose position at the mouth of the Liao River before the arrival of the railways made it the main shipping center for the already burgeoning soybean trade. With supplies of silver currency inadequate for the volume of trade, warehouse merchants developed the practice of crediting soybean freight haulers with the value of the beans they delivered from the farming areas in *tael* units, and transferring that value to other merchants as requested in payment for merchandise for the freighters to haul north on their return trips.¹⁸ This was a sophisticated

system that demonstrated the ability of Chinese merchants to circumvent obstacles to trade on a large scale.

The relationship between Chinese economic identity and currency is particularly evident in the Chinese term, *da yang qian*, “big foreign (western) coin,” commonly used for the silver *yuan* coin which was the basis of the Chinese national and provincial currencies of the early twentieth century. In the course of China’s lengthy process of adjustment to the intrusion of western economic and cultural power into East Asia, the round silver dollar coin was one of the earliest western imports to be readily adopted in the Chinese economy, along with the New World crops of maize, peanuts, and potatoes. Spanish silver dollars came to China from the Phillipines in the 16th century, followed by Mexican dollars in the nineteenth century, along with the British dollar from Hong Kong and India, the American trade dollar, and the Japanese *yen*. The new coins largely replaced the traditional silver ingots in commercial transactions because they were lighter, easier to use, and more standardized. By the late nineteenth century silver dollars were being produced by Chinese mints, and in the early twentieth century were coined by the central Government and by provincial governments in Manchuria.¹⁹ The identification of the silver dollar as a foreign and specifically western - “*yang*” – style coin may be seen as a sign of Chinese reservations about adopting practices of the imperialist, “barbarian” powers, despite their practical advantages.

The unfortunate history of the Fengtian dollar also serves as a metaphor for the civil administrations of Chinese warlord governors. Like several of the warlords, Zhang Zuolin employed competent civil administrators and made serious efforts to promote economic development in southern Manchuria, including the carefully and realistically planned introduction of the *feng piao* as a means of monetary stabilization. Ultimately, however, just as

the overall effect of warlord rule in China was to stifle economic growth, so Zhang's military ambitions took precedence over prudent monetary policy, causing the *feng piao* to plummet in value, disrupting financial markets all over Manchuria and exacerbating the currency chaos it had been introduced to resolve.

Russian Identity

Beginning in the late 1890s, Russian workers, engineers, technicians, administrators, and military personnel were brought into Manchuria to build and operate the Chinese Eastern Railway and to administer the railway zone and the towns through which it passed. Russian officers and engineers also operated a large fleet of steamships on the Songhua and Heilongjiang Rivers. Harbin was established as a base for the railway and remained predominately a Russian town, with Russian merchants, banks and currency until the late 1920s. Russia's dominance over railway development in Manchuria was brief. The Treaty of Portsmouth, which ended the Russo-Japanese War in 1905, awarded Russia's rights over the Liaodong Peninsula and the South Manchuria Railway line between Changchun and Dalian to Japan.²⁰ In 1930 there were 140,554 Russians in Manchuria.²¹ By 1937 their numbers had declined to around 60,000.²²

The Russian currency was the ruble, which came in the form of a gold coin, a paper credit ruble backed by gold, and subsidiary silver and copper coins. When the Chinese Eastern Railway (CER) first began construction in the late 1890s, the Chinese laborers and suppliers of materials required payment in silver dollars. As the Russian presence increased in size and economic activity, rubles became increasingly acceptable, and after 1903 became the dominant currency of commerce in the area along the CER and northern Manchuria, except during the Russo-Japanese War. The ruble's popularity was fatally damaged, however, first by the effects of

the First World War, and more decisively by the Bolshevik Revolution of 1917. After 1917 the Czarist – or Romanoff – ruble was joined by Kerensky rubles issued by the Provisional government, and Siberian rubles from the Siberian government.²³ All lost their value, to the dismay of many migrants. A large proportion of the money that migrant workers and merchants carried home to Shandong early in the century was in the form of rubles because many had found work on the Russian railways. According to the Longkou (Shandong) Customs report for 1917, the fall in the value of the ruble -- from 66 coppers in January to 10 coppers in December -- "has brought the once wealthy emigrant to the verge of bankruptcy and has seriously affected the prosperity of every village in the district."²⁴ The situation for the ruble improved once the Soviet government established the official Dalbank in 1922, with an office in Harbin. New gold ruble notes were issued and began to gain acceptance until 1929, when tensions erupted between Chinese and Soviet authorities over the CER, causing the ruble to lose value again and to largely be displaced by Japanese currency.²⁵

The fortunes of the ruble closely coincided with the national status of Russia, which was for the most part more focused on its internal political and social crises than on expansion. Although the ruble quickly became an important part of the money supply in northern Manchuria in the early years of the century, it was repeatedly shaken by political upheavals and finally disappeared from the region, as did the Russian population.

Japanese Identity

When Japan acquired the South Manchuria Railway and the Liaodong Peninsula, the Japanese counterpart of the Russian migration brought thousands of Japanese technicians, administrators and other urban workers to southern Manchuria. By the end of 1937 there were

nearly 400,000 Japanese living in the towns and cities of Manchuria.²⁶ Japanese intentions for Manchuria were far more ambitious than those of Russia. The most important agency for Japanese colonization in Manchuria was the South Manchuria Railway Company (SMR), which described itself as "the carrier of the light of civilization into Manchuria,"²⁷ and operated a wide range of modern enterprises including hotels, harbors, a shale oil distillation plant, the Anshan iron works, and a host of public institutions including schools, hospitals, and research facilities.²⁸

In addition to plans for industrial development, the Japanese government persistently sought to settle large numbers of Japanese farmers in Manchuria. Official programs for mass immigration from Japan were planned, beginning in 1914 with a scheme for subsidized settlement of former Japanese soldiers in the SMR zone and culminating in 1936 with the adoption of a grandiose twenty-year plan to locate five million Japanese farmers in Manchuria.²⁹ In each case detailed surveys were carried out in the prospective settlement areas, the farmers received subsidies of money, land, equipment, seed, and livestock, and supporting facilities such as training institutes and research centers were established.³⁰ Even after such painstaking preparations, however, the numbers of Japanese farm families who went to Manchuria never reached the plans' goals, and those who made the move to rural Manchuria found a harsh environment and an agrarian economy thoroughly dominated by Chinese farmers and merchants.

For the Japanese civil authorities and business leaders in Manchuria, the *yen* and the modern Japanese banking system constituted an important element of the new, "civilized" economy and society that they were creating in Manchuria. The *yen* coins and notes were firmly backed by gold and silver and were much more stable than the Chinese currencies. Indeed, Japanese merchants and business organizations were openly contemptuous of the Fengtian dollar

even in its early, stable years, and took steps to destabilize it, very possibly as part of an officially backed campaign to make the gold *yen* note the dominant currency in Manchuria.³¹

An aspect of the Japanese monetary system in Manchuria that was especially reflective of Japan's ambitions in the region was the role of the Bank of Chosen (Korea), which was founded in Korea with Japanese funding for the purpose of helping to operate Japan's colonial administration. The first major Japanese bank to operate in Manchuria was the Yokohama Specie Bank, which began issuing silver *yen* notes at its office in Yinkou in 1903. As Manchurian trade with Korea grew after completion of the link between the Manchurian and Korean rail systems in 1911, the Bank of Chosen opened offices in the major Manchurian cities and began issuing gold *yen* notes. In 1917 the Japanese government decided that the Bank of Chosen would be the sole issuer of gold *yen* notes in the Japanese controlled territories.³² Thus the very name of the bank that issued Japanese currency invoked the imperialist posture of the Japanese government.

III. "Free Banking" in Manchuria

Modern banking arrived in Manchuria at a time when political authority was fragmented and incapable of establishing a central bank with a monopoly over the money supply. The numerous banks established under national and private auspices to serve the commercial needs of the burgeoning economy therefore found themselves without central regulation, resulting in a situation of "free banking." There is an extensive and informative theoretical and descriptive literature on historical situations in which banks have issued their own currencies and operated as market competitors with little or no regulation.³³ In this kind of system, banks profit by issuing notes – paper currency – which pay no interest and by using the hard currency received for the notes as the backing for interest-bearing loans. The catch for the bank is that in order for its notes

to be accepted and held, they must be readily redeemable for hard currency – usually precious metal – on demand. Thus it behooves a bank to always retain a cushion of hard currency reserves in order to respond to any redemption demand, while at the same time trying to maintain as high a level of outstanding loans as possible to generate profits.

In several respects the Manchurian banking sector closely resembled other historical cases of free banking. One of the most thoroughly studied cases of free banking occurred in Scotland, from 1716 to 1844 when there was no monopoly central bank. During this period private banks issued their own currencies and actively competed with each other for the deposits of customers by touting their reliability. Agents of the banks raised the competitive pressure by buying each other's notes and presenting them for redemption, increasing the need for reserves and threatening the specter of depositor runs on inadequately stocked banks.³⁴ In Manchuria, Japanese efforts to denigrate the Fengtian dollar, while undoubtedly motivated by imperialist goals, may also be seen in the light of classic free banking currency competition. And it is worth noting that as long as the Fengtian dollar was securely backed it remained stable. It was only when Zhang Zuolin demanded note issues beyond prudent reserve support that the downward spiral of inflation took place.

Another feature of historical cases of multiple-currency free banking was the emergence of secondary markets for bank notes, in which dealers bought and sold the notes of different banks, earning profits by exploiting differences in the notes' values, which reflected the reliability of their respective banks. Markets of this kind, which functioned in the United States before the Civil War, provided expert information to the public about the soundness of banks, through the different discounts applied to their notes.³⁵ Similarly, currency exchange was a thriving business in Manchuria, for the pre-modern currencies, as well as for bank notes. A

Russian author commented that, “one of the particular consequences of the unsteadiness of monetary circulation is represented by an endless number of special enterprises in the country, which are exclusively engaged in the money exchange business.”³⁶

There were several aspects of the Manchurian currency markets that differed markedly from most cases of free banking and derived from the clashes of national power and of modernity with tradition that characterized Manchuria in this period. In most recorded cases of free banking, “a single ‘outside’ base money serves both as a unit of account and as a medium of redemption and interbank settlement...”³⁷ In Manchuria no single monetary standard existed before 1932, as illustrated in Table 1. The various political authorities that exerted sovereignty over portions of the region each employed its own hard currency. In Heilongjiang, it was the gold Russian ruble, in the areas dominated by Zhang Zuolin’s government it was the Fengtian dollar, backed by both gold and silver, in the concession zones of the South Manchura Railway it was the silver yen and the gold yen. Throughout Manchuria the silver yuan of the central government of China was an accepted standard, and individual provinces had their own currency standards. In addition, hard currency in Manchuria included the ancient forms of copper cash and silver ingots, both of which endured in the currency markets until 1932, and both of which served as redemption bases for note issues.

IV. Currency Chaos and Economic Growth

The costs of Manchuria’s fragmented and unstable currency situation were clear to all observers and participants in the economy. The American-trained economist, Franklin Ho, recalled his experience with currency conversions in Manchuria in the late 1920s:

. . . when I was carrying out field investigations in Manchuria on the problems of migration, I found that Manchurian currency differed from city to city and place to place. I started out with a \$10 national bank note, and exchanged it for local currency at each of the places where I stopped. When I got back to Tientsin I exchanged it again for national currency. In the process of exchange the ten dollars in national currency was reduced to two dollars.³⁸

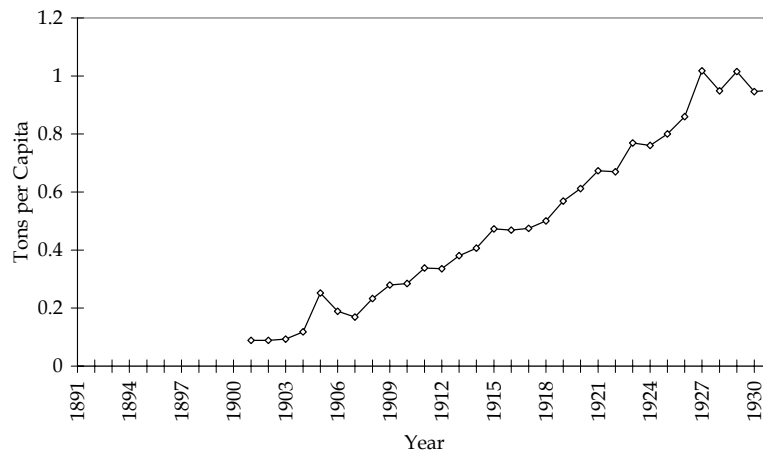
An official of the Chinese Eastern Railway complained that the currency exchange institutions in Manchuria, "... are extracting, in the first place, enormous amounts out of the productive commercial intercourse – for their proper maintenance; in the second place, they are increasing the selfcost of commodities and products, because every enterprise is obliged to take into account the expense involved in the exchange of currencies",³⁹

One of the most interesting conclusions of historical studies of free banking systems around the world is that most of them functioned quite well. Similarly in early twentieth century Manchuria, although many transactions required conversions between currencies with attendant fees, and involved risk of devaluation and consequent altering of costs or revenues, nonetheless, the economy showed remarkable growth and vitality. The lower cost of railway and steamship transportation opened new markets for traditional Chinese products like peanuts, eggs, and sesame seeds.⁴⁰ The most dramatic growth occurred in the soybean trade. By 1929 Manchuria produced 61 percent of total world soybean output.⁴¹ Many of the jobs migrants obtained were directly related to the soybean trade, in farming, transportation, or oil pressing, while thousands of others worked in service trades supplying everything from shoes to meals for the bean workers. Railway freight tonnage in Manchuria grew from 2.14 million tons in 1901 to 36 million tons in 1931, for an annual average growth rate of nearly ten percent. Over the same period, total net foreign trade valued in 1913 *haiguan taels* grew from 98.32 million to 380.65 million, for an average annual growth rate of 4.6 percent.⁴² Even if the freight and trade figures

are calculated on a per capita basis to allow for the growth of population due to migration, there was still strong positive development over the three decades as illustrated by Figures 1 and 2.

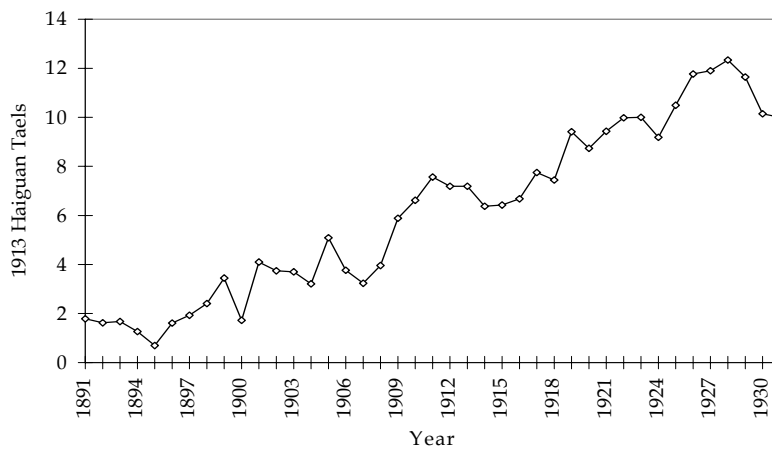
How could such a rapid growth rate take place in an economy plagued by the inefficiencies of the Manchurian monetary system?

Figure 1. Manchuria's Railway Traffic: Freight Tons Per Capita, 1891-1931



Source: Gottschang and Lary , p. 177.

Figure 2. Manchuria's Total Net Trade Per Capita, 1891-1931



Source: Gottschang and Lary, p. 179.

The answer seems to lie in two areas: First, while none of the individual components of the Chinese monetary system was adequate in and of itself, the combination of currencies and financial institutions managed to serve the needs of all elements of society, from the daily household purchases made in copper coins, to the large transactions in soybean shipments, made in silver ingots, or silver dollars, or in silver-backed *yuan* notes. Furthermore, there were financial intermediaries that specialized in each level of transaction, from the small exchange needs in street markets, to pawn shops and traditional banks, to modern banks. Second, there were well-established informal credit practices, based to a great extent on personal relations – *guanxi* – that circumvented much of the need for modern financial instruments. The operation of the Yinkou Transfer *Tael* system is an example. In this case the soybean freight hauler granted the warehouse owner credit in accepting a ledger entry in exchange for a load of beans, and in doing so obviated the need for an amount of silver currency equal to the shipment's value, or for a formal loan or contract agreement. Russian observers of the upstream end of the soybean trade recorded similar relations of considerable trust between soybean farmers, local buyers, and inter-regional wholesalers. The local buyer would pay the farmer for the crop long before it was harvested, again granting very substantial credit, equivalent to a futures contract, but with no written agreement. When the buyer collected the crop, it would in turn be entrusted to a wholesale dealer, again on credit, with the payment not being received until the shipment had been processed, transported, and sold.⁴³

Furthermore, the introduction of modern banking was to a great extent complementary to the traditional financial system, rather than entirely in competition with it. Modern banks did not provide the very small scale services that pawn shops and “money shops” engaged in, while the

traditional institutions were incapable of supplying the volume of funds required for modern industrial investments. In more than one instance the modern banking system prevented financial crashes that the traditional banks could not handle on their own.

There is no question that the Chinese currency system in Manchuria was inefficient and wasteful. It was not, however, ineffective. Like much of the Chinese economy, it managed to accomplish significant results using largely traditional methods. And while the Japanese authorities were certainly correct in believing that the economy could be more productive with a sound, modern monetary system, they were incorrect in believing that the traditional system was “uncivilized” or unsophisticated.

NOTES

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- ¹ This paper was prepared for the symposium, “The Social, Economic, and Cultural History of Modern East Asia,” the University of Michigan, November 5-6, 2004. An earlier version was presented at the Fairbank Center postdoctoral workshop, “Manchuria as Borderland: History, Culture, and Identity in a Colonial Space,” Harvard University, April 30 – May 1, 2004. The paper has benefited from comments and suggestions from the participants of both conferences.
- ² The term “Manchuria” is the most widely used English name for Northeast China (*Dongbei*). It is not intended to carry any further implication in this paper.
- ³ P.T. Etherton and H. Hessel Tiltman incorporated the term in the title of their book, *Manchuria, the Cockpit of Asia* (New York: Frederick A. Stokes and Company), 1932.
- ⁴ Prasenjit Duara, *Sovereignty and Authenticity: Manchukuo and the East Asian Modern* (Oxford: Rowman & Littlefield, 2003), p. 1.
- ⁵ See Gavan McCormack, *Chang Tso-lin in Northeast China, 1911-1928: China, Japan and the Manchurian Idea* (Stanford: Stanford University Press, 1977).
- ⁶ Chinese Eastern Railroad Printing Office, *North Manchuria and the Chinese Eastern Railway* (Harbin: Chinese Eastern Railway Printing Office, 1927; Reprint ed., New York: Garland, 1981), pp. 317-318; Sakatani, pp. 23-24.
- ⁷ Chinese Eastern Railroad Printing Office, p. 324.
- ⁸ Kwang-chih Chang, *The Archaeology of Ancient China*, revised edition (New Haven: Yale University Press, 1968), pp. 164-67, 351-54; Zhao Zhongfu, "Jindai dongsansheng yimin wenti zhi yanjiu " [Research on the problem of migration to the Three Eastern Provinces in the modern period], in *Zhongyang yanjiuyuan, jindaishi yanjiusuo jikan* 4.2 (Dec. 1974), p. 617; Robert H.G. Lee, *The Manchurian Frontier in Ch'ing History* (Cambridge, Mass.: Harvard University Press, 1970), pp. 8-9, 24-58; Owen Lattimore, *Inner Asian Frontiers of China* (Boston, 1962), pp. 131-133.
- ⁹ Thomas R. Gottschang and Diana Lary, *Swallows and Settlers: The Great Migration from North China to Manchuria* (Ann Arbor: Center for Chinese Studies, the University of Michigan, 2000).
- ¹⁰ Sakatani, Y., *Manchuria: A Survey of Its Economic Development* (New York: Garland, 1980. Originally prepared for the Division of Economics and History of the Carnegie Endowment for International Peace. 1932), pp. 20-21; Lien-sheng Yang, *Money and Credit in China: A Short History* (Cambridge, Massachusetts: Harvard University Press, 1952), pp. 26-27; Chinese Eastern Railroad Printing Office, pp. 316-317.

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- 11 Chinese Eastern Railroad Printing Office, p. 317.
- 12 Chinese Eastern Railroad Printing Office, p. 318; Lien-sheng Yang, p. 47; Sakatani, pp. 24, 32.
- 13 Lien-sheng Yang, p. 35.
- 14 Chinese Eastern Railroad Printing Office, pp. 316-317; Sakatani, p. 20-21.
- 15 Sakatani, pp. 22-25.
- 16 The monetary travails of the Fengtian Government are described in detail by Ronald Suleski, *Civil Government in Warlord China: Tradition, Modernization and Manchuria* (New York: Peter Lang, 2002), pp. 38-49.
- 17 Sakatani, pp. 25-26.
- 18 Sakatani, pp. 23-24.
- 19 Lien-sheng Yang, pp. 48-49; Sakatani, pp. 20-21.
- 20 The founding and organization of the Japanese South Manchuria Railway Company are described in SMR, *Second Report on Progress in Manchuria to 1930* (Dairen: 1931), pp. 97-101. The "Japanese Imperial Ordinance sanctioning Organization of South Manchuria Railway Company," the "Japanese Government Order regarding South Manchuria Railway Company," and the "Revised Articles of Association of the South Manchuria Railway Joint Stock Company" appear on pp. 253-67.
- 21 SMR, *Second Report*, p. 13.
- 22 SMR, *Sixth Report on Progress in Manchuria, to 1939* (Dairen: 1939), p. 146.
- 23 Chinese Eastern Railroad Printing Office, pp. 324-325.
- 24 China, Maritime Customs (CMC), *Returns of Trade and Trade Reports for Lungkow, 1917*.
- 25 Sakatani, p. 28.
- 26 Ibid.
- 27 SMR, *Fifth Report on Progress in Manchuria, to 1936* (Dairen: 1936), p. 68.

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- 28 Ibid., p. 70. The activities of the SMR are described in detail in the six "reports on progress in Manchuria." The SMR's contributions to the "secondary expansion process" are discussed by Shun-hsin Chou, "Railway Development and Economic Growth in Manchuria," *China Quarterly* 45 (January-March 1971): 81-82.
- 29 Ibid., pp. 116-29; see Louise Young, *Japan's Total Empire: Manchuria and the Culture of Wartime Imperialism* (Berkeley: University of California Press, 1998), pp. 44-45 and Chapter 7.
- 30 A good example of this sort of program is Minami manshu tetsudo kabushiki kaisha [South Manchuria Railway Company] (MMTKK), Chihobu Chihoka, *Man-mo nosei shian* (Private plan for administering agriculture in Manchuria and Mongolia) (Dairen: MMTKK, 1918).
- 31 Suleski, pp. 41-43; Yoshihisa Tak Matasusaka, *The Making of Japanese Manchuria, 1904-1932* (Cambridge: Harvard University Asia Center, 2001), pp. 81, 203.
- 32 Sakatani, pp. 27-28.
- 33 The literature is reviewed in George A. Selgin and Lawrence H. White, "How Would the Invisible Hand Handle Money?" *Journal of Economic Literature* 32 (1994), pp. 1718-1749.
- 34 Randall Kroszner, "Free Banking: The Scottish Experience as a Model for Emerging Economies," Policy Research Working Paper 1536, The World Bank Policy Research Department, November 1995, pp. 5-7.
- 35 Selgin and White, p. 1727
- 36 Chinese Eastern Railroad Printing Office, p. 345.
- 37 Selgin and White, p. 1736.
- 38 Franklin L. Ho (Ho Lian), "Reminiscences of Franklin Lien Ho." As told to Crystal Lorch. Manuscript in the possession of Dr. Samuel P. S. Ho, Department of Economics, University of British Columbia, 2, p. 153.
- 39 Chinese Eastern Railroad Printing Office, p. 345.
- 40 See Ralph William Huenemann, *The Dragon and Iron Horse: The Economics of Railroads in China, 1876-1937* (Cambridge: Council on East Asian Studies, Harvard University, 1984), pp. 235-36. Also CMC, *Decennial Reports 1902-1911*, Vol. I, pp. 229-30.

⁴¹ Sakatani, *Manchuria*, p. 107.

⁴² Gottschang and Lary, pp. 175, 178.

⁴³ Chinese Eastern Railroad Printing Office, pp. 98-99.