

Modern Asian Studies

<http://journals.cambridge.org/ASS>

Additional services for ***Modern Asian Studies***:

Email alerts: [Click here](#)

Subscriptions: [Click here](#)

Commercial reprints: [Click here](#)

Terms of use : [Click here](#)



Finance and the Northern Expedition: From the Northeast Asian Perspective, 1925–1928

KWONG CHI MAN

Modern Asian Studies / Volume 48 / Issue 06 / November 2014, pp 1695 - 1739

DOI: 10.1017/S0026749X13000139, Published online: 11 February 2014

Link to this article: http://journals.cambridge.org/abstract_S0026749X13000139

How to cite this article:

KWONG CHI MAN (2014). Finance and the Northern Expedition: From the Northeast Asian Perspective, 1925–1928. Modern Asian Studies, 48, pp 1695-1739 doi:10.1017/S0026749X13000139

Request Permissions : [Click here](#)

*Finance and the Northern Expedition: From the Northeast Asian Perspective, 1925–1928**

KWONG CHI MAN

*History Department, Hong Kong Baptist University, AAB 1155, Academic and
Administrative Building, Hong Kong Baptist University, Kowloon, Hong Kong
Email: cmkwong@hkbu.edu.hk*

Abstract

This paper looks at the problems faced by the Chinese silver-backed currencies in Manchuria during the period of Northern Expedition (1925–1928), the Chinese attempt to overcome these problems, and the reasons for its failure. Manchuria was a peculiar territory during the interwar period (1919–1939), where several currencies, backed by silver or gold, competed against one another. The Chinese silver banknote, first introduced at the turn of the twentieth century, was challenged by gold-backed Japanese yen issued by the Bank of Korea, and by the Russian ruble. This competition was set in the context of the struggle for political control over the area between China (the Qing Dynasty and its successor, the Chinese Republic), Russia (and its successor the Soviet Union), and the Japanese Empire, as well as the war between the southern Nationalists (Kuomintang) and the militarists (warlords) who controlled the Chinese central government in Beijing and Manchuria. This paper suggests that the difficult financial situation determined the course followed by the warlords, and that their failure was the result of the complex regional context, and the failures in their military strategy rather than of their fiscal policy.

Introduction

This paper looks at the financial dimension of the Northern Expedition (1925–1928) in China from the perspective of the northern warlords' (*beiyang junfa*).¹ Specifically, it discusses the failure of Zhang Zuolin

* The author would like to thank Professor Hans van de Ven, Professor Rana Mitter, Professor Barak Kushner, and the anonymous reviewers for their most useful comments.

¹ The 'northern warlords' concerned in this paper include those opposed to the Kuomintang during the Northern Expedition who rallied round the Manchurian

(1874–1928), the leader of the north and the Fengtian Clique (*fengxi junfa*) of Manchuria,² to overcome the financial limitations imposed by regional and international factors during the Northern Expedition. Although it has been overlooked in the accounts of the war, Hans van de Ven aptly suggested that the ability to pay for the war was of paramount importance for the Kuomintang's victory.³ Studies on the economic history of Manchuria portrayed Zhang Zuolin's attempt to finance the war from 1925 to 1928 as a failure that led to economic disruption and social unrest.⁴ The centre of this narrative was hyperinflation caused by depreciation of the Chinese currency of the area, *fengpiao* (the Chinese name for the Fengtian Dollar, *hōhyō* in Japanese).

As this paper argues, the difficult financial situation determined the course Zhang and the Fengtian Clique followed. Rather than blindly printing money to pay for the war, the Clique used the state-controlled bank to mobilize Manchuria's resources to fund its strategic design in Northeast Asia that would eventually solve its financial predicament. The Clique took this risk, as its leaders believed that Chinese and foreign financial support would be forthcoming once the north appeared to be winning. It was the failure of a similar strategy in China that led to the collapse of the *fengpiao*. Other contenders for power in China at that time faced different degrees of financial problems, and all saw war as one of the solutions. Hans van de Ven suggests that one of the motives for the Kuomintang to launch the Northern Expedition was what he called the 'military-fiscal cycle': they had to obtain additional financial resources, which would be used to support the military, by military and territorial expansion.⁵

warlord Zhang Zuolin, formed the National Pacification Army (*Anguojun*, or *Ankuochun* as it was known in Wade-Giles) and maintained the Government until June 1928.

² The Chinese called the area *dongbei* (Northeast China) or *dongsansheng* (Eastern Three Provinces) the word Manchuria is used here for the sake of convenience

³ Hans van de Ven (2003). *War and Nationalism in China, 1925–1945*, Routledge, London, pp. 88–92, 125–128; Hans van de Ven's work was the only work that systematically discussed the financial dimension of the Northern Expedition.

⁴ Gavan McCormack (1977). *Chang Tso-lin in Northeast China, 1911–1928: China, Japan, and the Manchurian Idea*, Stanford University Press, Stanford, pp. 191–204; Ma Shangbin, et al. (2001), *Fengxi jingji (Economy of the Fengtian Clique)*, Liaohai chubanshe, Shenyang, pp. 230–234; Yang Naikun and Cao Yanxiong (2005), *Jindai dongbei jingji wenti yanjiu 1916–1945 (A Study on the Economy of Northeast China)*, Liaoning daxue chubanshe, Shenyang, p. 83; Nishimura Shigeō (1984), *Chūgoku kindai Tohoku chiikishi kenkyū (A Study on the Regional History of Modern Northeast China)*, Hōritsu Bunkasha, Kyoto, pp. 106–107, 153–157; Wei Fuxiang (1986). *Lun Fengpiao maofang jiqi suiluo, Social Science Front Bimonthly*, 3, 117–123.

⁵ Hans van de Ven, *War and Nationalism*, p. 93.

Likewise, Feng Yuxiang turned to the Soviets and sought to control North China because the northwestern provinces could not feed his army.

Before Zhang Zuolin decided to fight in China in 1926, he faced a difficult and complex financial situation over which he had little control. The situation was caused by limited income and high military expenditure, a decline in the price of silver after the First World War, and Japanese attempts to control the Manchurian economy. These factors forced Zhang to seek new sources of revenue. Although Zhang controlled the Beijing Government after 1926, it received no revenue from the provinces and its only source of funds were the Customs income and the Salt Gabelle, which were hypothecated to foreign and domestic loans as well as indemnities. Even though the Tariff Conference of 1925 promised China that it could collect additional tariff (known as the Customs Surtax), the Chinese Maritime Customs Service prevented the Beijing Government from actually collecting it, fearing such a move would antagonize the Kuomintang, which had threatened to dismantle the Service.

In the face of this volatile financial situation, Zhang Zuolin had several options such as increasing tax in Manchuria, issuing internal bonds, borrowing internationally, or seizing areas or institutions which had a steady income. The reasoning behind Zhang's policy was to buy beans from the peasants with newly issued Fengtian Dollars to earn foreign exchange that could then be used to fund the war in China—ostensibly to help the Clique financially. With a significant part of the Manchurian economy under Japanese control, Zhang could hardly raise more revenue there without alienating the Japanese, who were opposed to Zhang's move into China. It was impossible for him to issue internal loans through the Beijing Government, as it lacked credibility. The Chinese banking community turned to the Kuomintang, especially after it had captured Shanghai. Zhang could not borrow from an increasingly hostile Japan, whilst Britain was willing to commit only until the situation was clearly favourable to the north. Thus, in order to convince the British, the only viable option left to Zhang was to seize revenue centres such as Beijing, Tianjin and Shanghai and thereby control a greater share of the Customs revenue as well as the Salt Gabelle.

Whilst the northern leaders were trying to secure additional income to fight the war and stabilize the *fengpiao*, the political-military situation not only affected the value of the currency but also the confidence of the Powers and the Chinese towards the Mukden-Beijing

regime. The inability of the northern army to hold Shanghai was a fatal blow, as it deprived the north from a steady stream of income that could have boosted the confidence of the people towards Zhang and the *fengpiao*. More important, as most of the trade between China and the Powers was conducted in the South, especially in Shanghai, the Powers and the Chinese Maritime Customs Service quickly turned to the Kuomintang once it was apparent that the north was unable to retake the city. This explained the perpetual financial difficulty of Zhang's Generalissimo Government from 1927 to 1928.

To illustrate Zhang Zuolin's attempt to deal with the financial problem between 1925 and 1928, and the relationship between the *fengpiao* and Fengtian strategy, this paper first briefly describes the economic contexts of Manchuria, the fall of the *fengpiao*, and its impact. It then discusses the financial difficulties faced by the Fengtian Clique and its attempts to overcome them. It finally analyses the financial implication of the north's inability to hold Shanghai and the warlords' failure to use the Customs issue to bring about a negotiated peace in early 1928.

The contexts

The Manchurian economy before 1890

Despite the Qing's policy of *fengjin*,⁶ Manchuria was an integral part of the regional economic system that centred on China until the late nineteenth century. Trade, mainly conducted by Han Chinese, grew in the next century as a result of prolonged peace, population increase,

⁶ After the Qing gained control of China in the mid seventeenth century, it decided to move the Manchus from their homeland to secure the dynasty's control over a much larger and hostile Han population. This migration removed a substantial part of the population (estimated to be 9 million) from Manchuria. To revitalize the region, the Qing had to encourage Han migration, but fear of Han colonization led to the reintroduction of the policy of 'seal and prohibit (*fengjin*)' in 1668. This policy curtailed Han migration, though never stopped it, until the late nineteenth century. See Zhao Zhongfu (1971). 1920–1930 niandai de dongsansheng yimin, *Bulletin of the Institute of Modern History, Academia Sinica*, 2, 327; Jiang Xiulong and Zhu Zhaixian (1993). *Dongbei minzu shigang*, Liaoning jiaoyu chubanshe, Shenyang, p. 130; Christopher Mills Issett (2007). *State, Peasant, and Merchant in Qing Manchuria, 1644–1862*, Stanford University Press, Stanford, p. 24; Prasenjit Duara (2003). *Sovereignty and Authenticity: Manchukuo and the East Asian modern*, Rowman and Littlefield, Lanham, Maryland, p. 41.

and increased agricultural production.⁷ A trading network based on soybean, an excellent fertilizer for the sugarcane and cotton fields in South China, emerged between Manchuria, the coastal provinces, and North China in the eighteenth and nineteenth centuries. When the British consul of Niuzhuang first arrived in Manchuria in the mid nineteenth century, he found that bean trading was 'an ancient and flourishing institution'.⁸ The volume of trade between Manchuria and South China was so large that there were over 10,000 Fujianese households stationed in Liaodong conducting trade in 1791. Through *huiguan* (會館), trade links were established between Manchuria and Shanxi, Tianjin, Shandong, Fujian, Shanghai and Guangzhou;⁹ trade on a considerable scale was also conducted between Manchuria and Korea.¹⁰

From the mid eighteenth century, Manchuria became a major breadbasket for the empire, exporting foods such as kaolin and bean to the southern and southeastern provinces. According to Christopher Isett, an annual surplus of soybeans increased from 2.6 to 3.9 million *dan* (50 kilograms) in the late eighteenth century to 7.8 million in 1875.¹¹ Before 1906, the majority of this surplus went to South China. Beans and grains from Manchuria freed agricultural land in Southeast China which could then produce cotton. Thus, even before the coming of the western nations, Manchuria played a role similar to that of a colony by providing cheap food, raw material, and a market on the one hand, and on the other, by releasing land in the Jiangnan area for more profitable agricultural production.

⁷ Christopher Mills Isett, *State, Peasant, and Merchant*, p. 211; Yang Yulian *et al.* (1991); *Qing dai Dongbei shi* (*A History of Northeast China in the Qing Dynasty*), Liaoning jiaoyu chubanshe, Shenyang, p. 366; Bank of Korea (1920). *Economic History of Manchuria*, Bank of Korea, Seoul, p. 15.

⁸ The actual place where the consul was set up was in Yingkou. It was named as the Consul of Niuzhaung because the British found Yingkou a better seaport, whilst the Treaty of Beijing in 1860 only opened Niuzhaung. See Bank of Korea, *Economic History of Manchuria*, pp. 16, 18.

⁹ Bank of Korea, *Economic History of Manchuria*, pp. 18–19; Christopher Mills Isett, *State, Peasant, and Merchant*, p. 364; Yang Yulian *et al.*, *Qing dai Dongbei shi* (*A History of Northeast China in the Qing Dynasty*), pp. 413–415.

¹⁰ Takeshi Hamashita, Ouyang Fei (tr.) (1999). *Jindai Zhongguo de guoji qiji: chaogong maoyi tixi yu jindai Yazhou jingji quan* (*Kindai chūgoku no kokusaiteki keiki, The International Dimension for the Emergence of Modern China: The System of Tributary System and Modern Economic Spheres in Asia*), Zhongguo shehui kexue chubanshe, Beijing, p. 43.

¹¹ Christopher Mills Isett, *State, Peasant, and Merchant*, p. 228.

Reorientating the Manchurian economy

As a result of Japanese and Russian expansion into the area in the late nineteenth century, Manchurian economy developed at the expense of the trade pattern described above. First, the Taiping and Arrow wars of the 1860s had devastated the bean trade with the lower Yangzi region. Then, the opening of the treaty ports along the China coast turned Manchuria into one of the hinterlands of a trading network that centred on the great treaty port cities and later on Japan.¹²

After the opening of Yingkou in 1872, trade between China and Manchuria steadily declined, as foreign imports replaced Chinese goods and Manchurian agricultural products found new markets in the outside world. Customs figures show that the ratio of foreign import to Manchuria via Yingkow rose from 65 per cent in 1872 to 78 per cent in 1899.¹³ The establishment of Dairen as a major seaport in 1905 and the emergence of the railways dealt a fatal blow to the Manchuria-China trade. Duty-free Japanese goods from Dairen drove out Chinese products, whilst Japan became the major consumer of Manchurian beans because the railway to Dairen now shipped the beans much quicker at lower cost.¹⁴ There was a similar pattern in North Manchuria after the Chinese Eastern Railway was built by the Russians in the 1880s. Bean cakes for South China now went to Japan and Russia; bean oil was shipped to Europe and the United States as an industrial material (bean oil was a raw material used in the chemical industry, the locomotive of the Second Industrial Revolution). The volume of beans exported to Japan and Europe was 160,000 tons in 1907, 930,000 tons in 1909, and 2,720,000 tons in 1929.¹⁵ Chinese refineries, which previously produced oil for local

¹² Takeshi Hamashita (2008). *China East Asia and the Global Economy*, Oxford University Press, Oxford, pp. 87–91.

¹³ Kaneko Fumio (1991). *Kindai Nippon niokeru tai manshū tōshi no kenkyū (A Study of the Japanese Investment on Manchuria)*, Kondō Shuppansha, Tokyo, p. 22.

¹⁴ Xiong Xiling (1908), *Di yi ci tiaocha Ying-Wu shangwu bin, Manzhou shiyeen*, Youweishe, Shanghai, p. 75, 79–81; See also Yang Yulian *et al.*, *Qing dai Dongbei shi (A History of Northeast China in the Qing Dynasty)*, p. 439.

¹⁵ *Kantō totokufu minseibu shomuka, Monmō keizai jijō (Economic Issues of Manchuria and Mongolia, published by the Civil Affairs Department, Kanto Government) (1917)*, No. 6, 20/2/1917, *Naikaku bunko* (NB), Japan Center for Asian Historical Records (JACAR), Ref: A06033518200, slide 46; Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū*, p. 143; Kaneko Fumio, p. 4; Herbert P. Bix (1972). Japanese Imperialism and the Manchurian Economy, 1900–31, *The China Quarterly*, 51, 428; Tsukase Susumu (2005). *Chūgoku tōhoku chiiki ni okeru daizu torihiki no dōkō Mitsui bussan* (Mitsui

consumption, joined the South Manchuria Railway's concession to produce oil for the international market.

Competing currencies

To facilitate the above-mentioned interregional and international commodity trade, there emerged a sophisticated but unstable financial network that became the contesting ground between China, Japan and Russia, which all three tried to control by introducing a dominant currency. In Manchuria, currency policy was driven not by a neutral 'market force' but by diplomatic and political considerations.

The Russians introduced the first foreign currency in Manchuria. After signing the Sino-Russian Secret Treaty with the Qing government in 1896, the Russians built the Chinese Eastern Railway and obtained the right to develop the area along the railway. From 1896 to 1917, rubles issued by the Russo-Chinese Bank were widely used by Russian traders to buy commodities from the local peasants, although the Russo-Japanese War of 1904–1905 had limited the scope of Russian penetration in North Manchuria.¹⁶

The first Japanese attempt to unify the currencies in Manchuria started soon after the Russo-Japanese War. First established in Yingkou in 1899, the Yokohama Specie Bank (YSB) established branches in major cities in Manchuria and issued silver-backed banknotes. When the Japanese government was controlled by the 'Korean Clique' led by Prime Minister Terauchi Masatake, the Bank of Korea introduced the gold yen to replace the YSB silver-notes as the Japanese spearhead of financial encroachment.¹⁷ The gold yen was circulated not only within the Japanese-leased territories along the South Manchuria Railway, Lushun and Dalian, but was also widely used in international trade in Manchuria.

In response to the Japanese moves, the Chinese issued the 'small-value silver notes' (*xiaoyangpiao*), exchangeable for silver specie (*yinyuan*) in Chinese banks in Manchuria only, in 1905. They were

Company's Bean Trade in the Region of Northeast China), in Yoshiki Enatsu. *Kindai Chūgoku Tōhoku chiikishi kenkyū no shinshikaku* (New Perspectives of the Study on the Regional History of Modern Northeast China, Yamakawa Shuppansha, Tokyo, p. 70.

¹⁶ Hu Yuhai, et al., *Fengxi jingji* (Economy of the Fengitan Clique), pp. 242–243.

¹⁷ Yasutomi Ayumu (1997). *Manshūkoku no kinyū* (Finance of Manchukuo), Shobunsha, Tokyo, p. 5.

issued by the Fengtian Provinces State Bank (*dongsansheng guanyinhao*), formed by the late-Qing reformers. Due to their popularity, the amount of small silver notes in circulation reached 153 million *yuan* in 1917.¹⁸ However, the value of these notes against the Japanese currencies declined sharply in that year. The Japanese claimed that the Chinese lacked silver specie to back the notes, but the Chinese accused the Japanese of destabilizing the currency through rumours and amassing *xiaoyangpiao* to exchange silver specie from the Chinese banks.¹⁹ The Chinese decided to make *xiaoyangpiao* inconvertible, but the Japanese protested against this. China only backed down when Japan lent them money to restore financial stability in 1917.²⁰

To stabilize the financial situation and circumvent the Japanese demand to make *xiaoyangpiao* convertible, Mukden recalled *xiaoyangpiao* and introduced the 'currency exchange note' (*huiduiquan*) backed by *yinyuan* in 1917. The new *huiduiquan* could not be exchanged for silver in Manchuria, but technically it could be used as an exchange note in Shanghai.²¹ As the Japanese noted, the Chinese had out-manoeuvred them by introducing a *de facto* inconvertible note.²² The Chinese claimed that the issue of *huiduiquan* was only a temporary measure, but *huiduiquan* stayed. It was known as the *fengpiao* thereafter.

During the Russian Civil War, Russian economic power in the region declined, and rubles issued by the Tsarist Government and successive White governments were rendered worthless. In response, the Chinese issued the 'Harbin Silver Notes (*xiadayang*)', which was fully backed by silver specie. Although its value remained relatively stable, it was mainly used for small-value transactions and its circulation was limited to North Manchuria.

Greatly profited from the war, Japanese businessmen filled the gap left by the Russians. By 1918, Japan's total investment in Manchuria

¹⁸ Yao Huiyuan (2002). Fengxi junfa tongzhi shiqi de Liaoning zhibi faxing (Banknote Issuing of the Fengtian Warlords in Liaoning), *Zhongguo qianbi*, 79, 13.

¹⁹ Yasutomi Ayumu, *Manshūkoku no kinyū*, p. 16; Yao Huiyuan, Fengxi junfa tongzhi shiqi de Liaoning zhibi faxing (Banknote Issuing of the Fengtian Warlords in Liaoning), p. 13.

²⁰ Kantōchō zaimubu (Treasury of the Government of the Kwantung Leased Territory) (1929). Tosanshō kangingō ron (A Study of the State Bank of the Eastern Three Provinces), JACAR, A06033520200, slides 167–169.

²¹ Yao Huiyuan, Fengxi junfa tongzhi shiqi de Liaoning zhibi faxing (Banknote Issuing of the Fengtian Warlords in Liaoning), p. 14.

²² Kantōchō zaimubu, Tosanshō kangingō ron, slide 170.

reached 845 million yen, tripling the pre-war value.²³ By 1923, there were 17 Japanese banking corporations operating in Manchuria.²⁴ The extraordinary increase in credit also channelled money to unprofitable business ventures and real estate speculation in Manchuria. Even the Bank of Korea was heavily involved in these activities.²⁵ An economic bubble quickly developed.

Tighter credit after the war brought an immediate recession that continued throughout the 1920s. Postwar recession and the collapse of real-estate prices in Manchuria left the Bank of Korea with a large amount of bad debt. As it was Japan's major bank in Manchuria and Korea, it had to lend money to other smaller banks with similar problems. The Bank's decision to continue to send gold specie to Japan further destabilized its banknotes.²⁶ The problem was exacerbated when Japan was hit by the Kanto Earthquake in 1923, which forced the Japanese government to issue the 'Earthquake bonds' to speed up recovery.²⁷ These bonds were the trigger for the financial crisis of 1927, when the banks and companies in Japan could no longer repay their debts. This development partly explained the volatile financial situation in Manchuria during the late 1920s, and the attitude of the Japanese regarding the *fengpiao* in Manchuria, who wanted to replace it with Japanese gold yen.

Thus, during the Northern Expedition, there were at least two currencies circulating in different parts of Manchuria: the Chinese currency (*fengpiao* and *xiadayang*) issued by Chinese authorities, and the Japanese gold yen issued by the Bank of Korea. The existence of these two competing currencies caused much difficulty for Zhang Zuolin when he was trying to mobilize the resources of Manchuria through currency manipulation.

²³ Kaneko Fumio, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (*A Study of the Japanese Investment on Manchuria*), p. 205.

²⁴ Xu Jieping (1985). Dongsansheng jindai huobi jinrong (Modern Currencies and Finance in the Eastern Three Provinces), in *Liaoning wenshi ziliao*, Vol. 12, Liaoning wrenmin chubanshe, Shenyang, p. 102.

²⁵ Yasutomi Ayumu, *Manshūkoku no kinyū*, pp. 33–34.

²⁶ *Ibid.*, pp. 34, 37.

²⁷ Mark Metzler (2006). *Lever of Empire: the International Gold Standard and the Crisis of Liberalism in Prewar Japan*, University of California Press, Berkeley, pp. 132–137; Metzler points out that the cost of the Kanto Earthquake was 'one-quarter of the damage caused to all of Japan during World War II'. See Mark Metzler, *Lever of Empire*, p. 146.

The fall of the *fengpiao* and its effects, 1926–1928

When describing the fall of the *fengpiao* between 1920 and 1928, Gavan McCormack wrote:

... although the Fengtian p'iao [the *fengpiao*] may be described as having weakened or declined through the fluctuation of 1920–1925, the Kuo Sungling (Guo Songling) rebellion marks a watershed, after which it can only be described as collapsing, somewhat in the manner of the French and German currencies after World War I. Early in 1927 it broke the 1,000 mark. By early 1928, it had sunk to 2,000, and 4,000 in February.²⁸

Others too have described the fall of the *fengpiao* as one continuous, uncontrolled and irreversible process that speeded up over time.²⁹ Before discussing the reasons for the fall, it is instructive to look at the 'fall' itself; a closer look suggests that the fall was by no means as uncontrollable and irreversible as it appeared.

As mentioned, the *fengpiao* was practically inconvertible. Its value was not entirely determined by the ability of the issuing banks to exchange the notes for specie. Thus, the immediate effect of the decrease of gold and silver specie held by the State Bank on the *fengpiao*'s price was limited. However, as it was exchangeable with gold yen, it could be affected by the long term changes in the price of gold and silver. Confidence in the currency, affected by the major events during the war, was of utmost importance. McCormack has pointed out that the performance of the Fengtian currency had close links with the fortune of the Fengtian Army.³⁰ The price of the *fengpiao* reflected the people's reaction towards specific events and showed their expectations regarding the future of Zhang Zuolin's regime. Since future trade (14 and 28 days) of *fengpiao* was also available, rumours and speculations also played a major role in the fluctuation of the *fengpiao* during these turbulent years.

Soon after the introduction of the *fengpiao* in the late 1910s, Manchuria and China entered a period of political upheaval. This was reflected in, and led to, the fluctuation of the currency. There were intermittent falls and recoveries of the currency before and after

²⁸ Gavan McCormack, *Chang Tso-lin in Northeast China*, p. 193.

²⁹ Yang Naikun and Cao Yanxiong, *Jindai dongbei jingji* (*A Study on the Economy of Northeast China*), p. 83.

³⁰ Gavan McCormack, p. 192. Although McCormack points out the importance of external events on the exchange rate of the *fengpiao*, he does not look at the fluctuation of the *fengpiao* after January 1926.

the First and Second Zhili-Fengtian Wars, but the first significant fall occurred during the anti-Fengtian War which started in late 1925, when Sun Chuanfang attacked the Fengtian garrison in Jiangsu and Anhui. In October, the price of the *fengpiao* fell from around 160 *yuan* (*fengpiao*) to 200 *yuan* per 100 gold yen. In mid-December, when Guo Songling's troops were approaching Mukden, it reached the unprecedented low of 226 *yuan*.³¹ After the rebellion, the *fengpiao*'s price stood at around 200,³² but gradually fell to 430 by the end of May.³³ At that time, the Fengtian forces had moved into North China again; Wang Yongjiang, the civilian governor who was seen as the man behind the Fengtian Clique's finance, resigned in protest at Zhang Zuolin's decision to continue the war. The fall in value continued, and at one point in July the price reached 573 *yuan*.³⁴ The expectation that the 'impetuous warlords' would mismanage the economy contributed to this fall.³⁵ Currency speculation was another cause: it was not until Zhang Zuolin imposed a fixed exchange rate and shot several currency exchange dealers working in the Leased Territory in August that the rapid fall was checked. After this, the price stabilized at 400 *yuan* by the end of the year (see Figure 1).

The depreciation of the *fengpiao* in 1926 supposedly had a very adverse effect on both the Chinese and the Japanese in Manchuria. Japanese businessmen believed that the shrinking of Chinese purchasing power would lead to a decline in Japanese exports to Manchuria.³⁶ However, Customs figures from the ports in South Manchuria (Dairen, Niuzhaung, Andong, and Harbin) show that there was a 13 per cent increase in imports, offsetting a slight decrease in

³¹ Yoshida sōryōji (Consul General Yoshida) (1926). *Manshu dōran no Hōtenhyō*, tokusanmotsu ni kyū bozeru eikyō to Hōtenhyō no shōrai nikansuru ken (Report on the financial status of Fengtian Province after Guo Songling's rebellion), 12/1/1926, No. 598, in Gaimushō (ed.) (1988). *Nihon gaiko bunsho* (as NGB below), *Showa-ki*, (Documents on Japanese foreign policy, Showa era), 1926, 2:1, Gaimushō, Tokyo, p. 564.

³² Yasutomi Ayumu, *Manshūkoku no kinyū* (*Finance of Manchukuo*), pp. 35–36.

³³ Yoshida sōryōji (1927). *Hōtenhyō no torihiki jōkyō nikansuru ken* (Report on the exchange rate of the *fengpiao*), 28/5/1927, NGB, 1926, 2:1, p. 575.

³⁴ Kantōchō zaimubu, *Tosanshō kangingō ron*, slides 237–239.

³⁵ Kantō chōkan Kodama Hideo (Governor of the Kwantung Leased Territory Kodama) (1926). *Kantō chōkan no tai Hōtenhyō seiri iken* (Opinion on the reorganization of the *fengpiao*), 2/9/1926, No. 653, NGB, 1926, 2:1, pp. 663–664.

³⁶ Yokohama shōkin ginkō tōdoriseki tōyōka jichō Watanabe Rei (Watanabe Rei, Deputy Head of the Eastern Asian Bureau, Head Office of the Yokohama Specie Bank), 'sho dai 10 gō (Letter no. 10)', NGB, 1926, Vol. 2, No. 1, p. 601. It should be noted that during this period there was no large scale arms import to Manchuria.

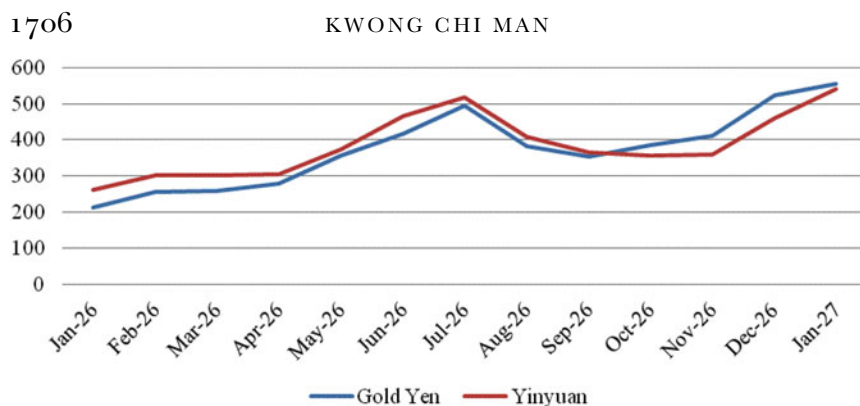


Figure 1. (Colour online) Monthly Average Exchange Rate between Fengpiao and 100 Gold Yen in Mukden, 1.1926–1.1927.

Source: Kantōchō zaimubu (1929). Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), slides 237–239.]

the import of textile products.³⁷ As for the Chinese, the fall in the *fengpiao*'s value in 1926 mainly affected the lives of those who received fixed wages, such as clerks, factory workers and soldiers. However, the number of strikes recorded did not increase.³⁸ In August, an imminent strike of the workers in the Mukden Arsenal was avoided when the authorities agreed to raise salaries by 20–30 per cent; similar measures were introduced throughout Manchuria.³⁹ The soybean trade was little affected. Although the export of raw beans decreased from 54,204,000 HK tael in 1925 to 47,314,000 HK tael in 1926, this decrease was more than compensated for by an increase in the export of bean cakes and oil from 77,078,000 HK tael to 100,833,000 HK tael.⁴⁰

The impact of the fall in the first half of 1926 might have been limited, but the value of the *fengpiao* plummeted again towards the end of the year. This falling phase continued until April–May 1927 and witnessed a price drop from around 400 *yuan* in November 1926 to 600 *yuan* in January 1927, then from 600 *yuan* to 1,000 *yuan* from February to May. Unlike the fall in the previous year, which persisted throughout the summer, the fall at this point checked and remained stable. From 7 April to 4 December, the price was never outside the

³⁷ Kaneko Fumio, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (A Study of the Japanese Investment on Manchuria), p. 314; Yokohama shōkin ginkō tōdōriseki tōyōka jichō Watanabe Rei, 'shō dai 10 gō', NGB, 1926, Vol. 2, No. 1, p. 601.

³⁸ Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū* (A Study on the Regional History of Modern Northeast China), p. 156.

³⁹ Shijie Ribao (as SR below), 4/8/1926.

⁴⁰ Kaneko Fumio, p. 315.



Figure 2. (Colour online) Daily Exchange Rate between Fengpiao and 100 Gold Yen in Mukden, 4/1/1927–29/12/1927.

Source: Sai Hōten sōryōji dairi Hachiya (1927). Hōhyō sōba nikansuru ken (A report on the *fengpiao*'s exchange rate), 15/1/1927, GK, JACAR, Bo8o6o8g36oo, slide 52; Yoshida sōryōji (1927). Hōtenhyō sōbahyō sōfu no ken (Attached chart on the *fengpiao*'s exchange rate), 14/3/1927, GK, Bo8o6o8g36oo, slides 87–92; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken (A report on the *fengpiao*'s exchange rate), 22/4/1927, GK, JACAR, Bo8o6o8g37oo, slides 138–141; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 8/6/1927, GK, JACAR, Bo8o6o8g37oo, slides 162–164; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 4/7/1927, GK, JACAR, Bo8o6o8g37oo, slides 165–167; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 5/8/1927, GK, JACAR, Bo8o6o8g37oo, slides 167–169; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 6/9/1927, GK, JACAR, Bo8o6o8g37oo, slides 175–178; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 5/10/1927, GK, JACAR, Bo8o6o8g37oo, slides 191–194; Yoshida sōryōji (1927). Jūgatsu naka Hōhyō sōba nikansuru ken (A report on the *fengpiao*'s exchange rate in October), 5/11/1927, GK, JACAR, Bo8o6o8g37oo, slides 198–200; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 12/12/1927, GK, JACAR, Bo8o6o8g37oo, slides 202–204; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 22/4/1927, GK, JACAR, Bo8o6o8g37oo, slides 138–141; Yoshida sōryōji (1927). Hōhyō sōba nikansuru ken, 16/1/1928, GK, JACAR, Bo8o6o8g38oo, slides 235–237.]

range of 800 *yuan* to 1,200 *yuan* and for most of the time it stayed around 1,000 (see Figure 2). After a brief panic following a northern defeat in late May, the military situation improved; when the *Anguojun* defeated Chiang Kai-shek in Xuzhou in August, the price rose to 800 *yuan*.⁴¹ The relative stability of the north during the war was reflected in the price of the *fengpiao*. Nonetheless, as the northern army was

⁴¹ Yoshida sōryōji, 'Hōhyō sōba nikansuru ken (Message about the Price of Fengitan Notes)', 5/8/1927, Gaimushō kiroku (GK), JACAR, Bo8o6o8g37oo, slide 167.

defeated in Longtan, the *fengpiao*'s price soon returned to 1000, and remained stable until December.⁴²

As Keynes had predicted before the First World War, the printing of money in wartime might not immediately lead to uncontrollable inflation. Although the buying power of the *fengpiao* declined, the negative impact was offset by wage increases. By March 1927, commodity prices had increased by 222 per cent from early 1926, but the average wage of the workers had increased by 268 per cent.⁴³ It was not until early 1928 that the rise of commodity prices finally rose above those of wages.⁴⁴ However, although the currency remained 'stable' throughout 1927, it was only one-third of its previous year's value. As credit decreased, trade declined. From the Customs figures, the five major categories of imported goods (cotton textile, raw cotton, wheat flour, metal, and machinery) declined between 10 and 71 per cent. Imports from Japan declined, and exports became stagnated.⁴⁵ The population was unhappy about Zhang's handling of Manchuria's finances.⁴⁶ Nonetheless, compared with the severe economic dislocation in South and Central China and famine or near-famine in Hunan, Shandong, and northwestern China, the situation in Manchuria was considerably better. In August 1927, the British even noted a 'slight improvement' in the economic outlook.⁴⁷ Major John Magruder of the United States' Army observed in November 1927:

Coming from the widespread pessimism among businessmen and officials in China Proper, which increases progressively as one goes south, one is immediately struck with the optimism among businessmen, foreign and Chinese, in Mukden. As to the prosperous conditions in Manchuria I heard of no dissenting voice. The atmosphere is infectious with high business adventure comparable to our own West. Even the Chinese

⁴² Yoshida sōryōji, 'Hōhyō sōba nikansuru ken (Message about the Price of Fengitan Notes)', 6/9/1927, GK, Bo8060893700, slide 176.

⁴³ Yoshida sōryōji, 'Hōhyō bōraku toki eikyō hei ni Shinasoku taisaku (A report on the fall of the *fengpiao*, its effects, and reaction on the Chinese side)', 29/3/1927, GK, Bo8060893700, slides 116–118.

⁴⁴ Sai Hōten sōryōji dairi Hachiya Terō, 'Hōhyō bōraku toki eikyō hei Shinasoku no taisaku nikansuru ken (A report on the fall of the *fengpiao*, its effects, and reaction on the Chinese side)', 18/2/1928, GK, Bo8060893900, slide 346.

⁴⁵ Kaneko Fumio, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (A Study of the Japanese Investment on Manchuria), pp. 315, 317.

⁴⁶ Captain Malcolm Duncan Kennedy, *The Diaries of Captain Malcolm Duncan Kennedy, 1917–1946*, 20/4/1927, 84. University of Sheffield Library http://librarysupport.shef.ac.uk/kennedy_diaries.pdf [accessed 18 September 2013].

⁴⁷ 'Sir M. Lampson to Air Austen Chamberlain', 24/8/1927, F 8095/144/10, FOCP, Vol. 33, p. 219.

TABLE A:
Manchuria's export to China and Japan, 1920–1930 (in thousand HK teal)

	To China (percentage)	To Japan (percentage)	Total
1920	47,116 (24.9)	81,295 (43)	188,958
1921	57,507 (29.6)	89,774 (46.3)	194,075
1922	91,233 (41.5)	80,456 (36.6)	219,930
1923	81,074 (32.9)	105,517 (42.8)	246,748
1924	49,667 (23.3)	99,194 (46.5)	213,441
1925	87,962 (33.9)	99,257 (38.2)	259,732
1926	94,811 (31.7)	111,477 (37.2)	299,506
1927	109,668 (33.5)	102,352 (31.2)	327,605
1928	107,655 (30.9)	123,304 (35.4)	348,037
1929	92,002 (24.3)	135,284 (35.7)	379,312
1930	101,525 (29.9)	116,810 (34.4)	339,101

Source: Kantōchō zaimubu (1929), Tōsanshō kangingō ron, slides 237–239.

masses on the streets look well nourished. Animals have replaced human transport, and the numerous cart animals are noticeably well fed. There is no unemployment in Manchuria [original underline]. The senseless inflation of the *fengpiao* is well known and causes immense difficulties to trade. Everybody condemns the *fengpiao*, but business thrives and men are prosperous in spite of this stupid device for financing Chang Tso-lin's military venture south of the Wall.⁴⁸

In contrast to the decline of trade with Japan, trade between China and Manchuria actually increased during these years despite the difficulties. Dependence on Japan declined from 1925 onwards. Trade figures suggested that whenever Manchuria was at peace with Beijing (or actually controlled it after 1927), the volume of trade between China and Manchuria increased (see Table A). Still, since Manchuria traded as much with Japan as with China, the war was not seen as one that could bring benefit to the business community. Because Zhang Zuolin failed to end the war in 1927, the economic situation in Manchuria began to deteriorate.

The real collapse of the *fengpiao* happened between December 1927 and early 1928, when the war was entering its final stage (see Figure 3). The first three exchange days in 1928 witnessed the fall of the currency from 1,360 *yuan* per 100 yen to an unprecedented low of 2,000 *yuan*: it then stayed at 2,000 for the rest of the month, and plunged to over 3,000 in early February.

⁴⁸ 'Report on the General Conditions in Manchuria', November 1927, Paul Kesaris (ed.), *U.S. Military Intelligence Reports: China, 1911–1941* (USMI), (Frederick, Maryland: University Publications of America, 1983), Vol. 4, slide 399.

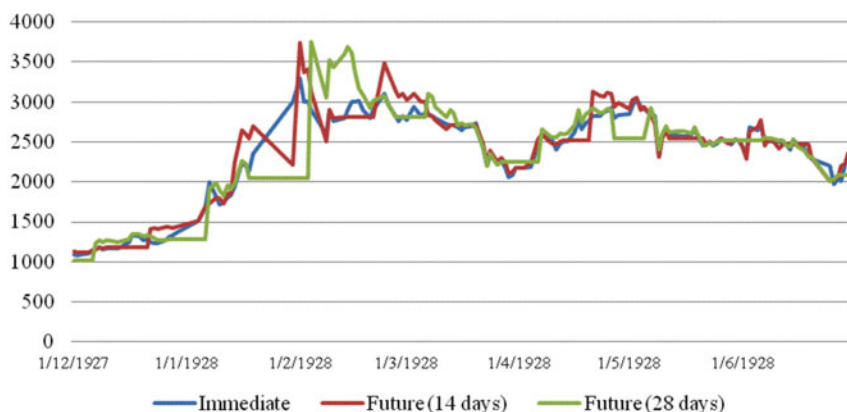


Figure 3. (Colour online) Daily Exchange Rate between Fengpiao and 100 Gold Yen in Mukden, 1/12/1927–30/6/1928.

Source: Yoshida sōryōji (1928). Hōhyō sōba nikansuru ken, 16/1/1928, GK, JACAR, Bo8060893800, slides 235–237; Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō sōba nikansuru ken, 17/2/1928, GK, JACAR, Bo8060893900, slides 336–338; Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō sōba nikansuru ken, 13/3/1928, GK, JACAR, Bo8060893900, slides 372–374; Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō sōba nikansuru ken, 13/4/1928, GK, JACAR, Bo8060893900, slides 402–405; Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō sōba nikansuru ken, 10/5/1928, GK, JACAR, Bo8060894000, slides 423–426; Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō sōba nikansuru ken, 12/6/1928, GK, JACAR, Bo8060894000, slides 430–433; Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō sōba nikansuru ken, 9/7/1928, GK, JACAR, Bo8060894000, slides 451–454.

The impact of the collapse of the *fengpiao* in early 1928 on the lives of the Chinese in Manchuria was profound. This time, the sudden decline in purchasing power did not correspond with wage increases. Food prices tripled once more, but this time in less than a month (Figure 4).⁴⁹ People refused to use the *fengpiao* for daily transactions and turned either to the *yinyuan* or gold yen, both of which were forbidden by the government for transactions.⁵⁰ With limited credit,

⁴⁹ Sai Kairyū bunkan shunin Banni (Branch Officer of Hailong Bannai) (1928). Hōhyō bōraku ni tomodu eikyō nikansuru ken (A report on the effect of the fall of the *fengpiao*), 20/1/1928, GK, JACAR, Bo8060893800, slides 243–244; Sai Tsūka bunkan shunin Abe (Branch Officer of Tonghua Abe) (1928). Hōhyō bōraku to Tsūka sōjō no eikyō nikansuru ken (A report on the fall of the *fengpiao* and the effects of disturbance in Tunghua), 3/2/1928, GK, JACAR, Bo8060893800, slide 273.

⁵⁰ Sai Gyūsō ryōji Kishida (Consul Kishida of Niuzhuang) (1928). Hōtenhyō bōraku nikansuru ken (A report on the fall of the *fengpiao*), 28/1/1928, GK, JACAR, Bo8060893800, slide 249.

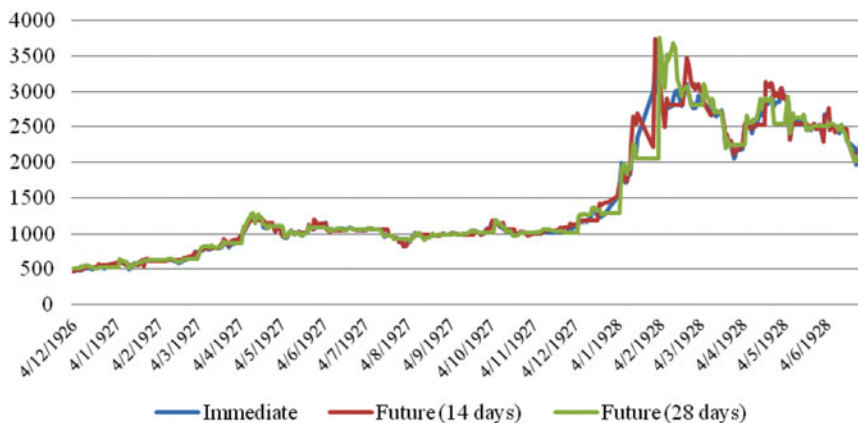


Figure 4. (Colour online) Daily Exchange Rate between Fengpiao and 100 Gold Yen in Mukden, 4/12/1926–30/6/1928.

Source: See Figures 1–3 above.

trade was brought to a halt.⁵¹ As many as 700 shops, most of them small businesses, went bankrupt between January and February, and as many as 5,000 shops suspended their businesses.⁵² Most importantly, this time the peasants could not bear the fall. In early 1928 it had a limited effect on large enterprises as they had stockpiled *yinyuan* or gold yen beforehand, but small businesses and peasants had little means to weather the storm.⁵³ Rural unrest became more apparent from January onwards, and the Small Sword Society (*xiaodaohui*) emerged.⁵⁴ The most serious incident of all was the mutiny of a company of Heilongjiang cavalymen in March because

⁵¹ Sai Tetsurei ryōji Tanaka (Consul Tanaka of Tieling) (1928). 'Hōtenhyō sanraku eikyō nikansuru ken (A report on the effect of the fall of the *fengpiao*)', 3/2/1928, GK, JACAR, Bo8060893800, slide 281.

⁵² Sai Hōten sōryōji dairi Hachiya (1928), dai 105 gō, 10/2/1928, GK, JACAR, Bo8060893900, slide 310; Rana Mitter (2000). *The Manchuria Myth: Nationalism, Resistance, and Collaboration in Modern China*, University of California Press, Berkeley, p. 36.

⁵³ Hōten kōshochō Kamata (Head of Mukden Branch Office of the South Manchuria Railway Kamata) (1928), Kyūsei zengo ni otekuru Hōhyō bōraku no eikyō (The effect of the fall of the *fengpiao* since last year), GK, JACAR, Bo8060893900, slide 320.

⁵⁴ Sai Hōten sōryōji dairi Hachiya (1928), dai 43 gō, 18/1/1928, GK, JACAR, Bo8060893800, slide 241; Hu Yuhai, Li Rong (2005). *Fengxijunfa dashiji*, Liaoning minzu chubanshe, Shenyang, pp. 463–467. Rural poverty allowed the Chinese Communist Party to seize the chance to stir up disturbances. After several punitive expeditions against the Small Sword Society, on 1 May the Party instructed the communists in Manchuria to abandon the attempt to use the Small Sword Society to seize power in Manchuria. See Hu Yuhai, Li Rong, p. 472.

of the drastic fall in their real wages.⁵⁵ These disturbances were not serious enough to bring down the Mukden regime, but they certainly undermined Zhang's claim to be a stabilizing force in North China and Manchuria.

In sum, the *fengpiao* experienced four slumps: January–August 1926, December–April 1927, December–February 1928, and throughout the first half of 1929 (Figure 4). Although in general the *fengpiao* was undoubtedly falling, it was not a continuous fall. A similar pattern can also be identified in the falls during these years. Major falls started at the end of each year, and then the price would stabilize throughout the following year. This suggests that Mukden's measures to control the price of the currency did not fail entirely. This pattern also had much to do with the trade pattern of Manchuria and with Mukden's financial mobilization for war to be discussed below.

Financial limitations faced by the Fengtian Clique

The fall of the *fengpiao* has been attributed to the 'unrestricted issuing' (*lanfa* in Chinese, *ranhatsu* in Japanese), which became a catchphrase for the misrule of warlords. However, few looked at the financial situation faced by Zhang Zuolin and the Fengtian Clique before the war. It was because those who studied the issue, including many contemporaries, assumed that without Zhang's military build up and his ventures in 'China Proper', a healthy economy could be built in Manchuria. This view was famously held by the governor of Fengtian, Wang Yongjiang, who argued that Manchuria should dissociate itself from China Proper and concentrate on economic development.⁵⁶ This section argues that such a view wrongly detached the economic issue from political and international relations and that it was the difficult financial situation in Manchuria that prompted Zhang to seek more revenue from outside.

⁵⁵ Sai Hōten sōryōji dairi Hachiya (1928). Hōhyō bōraku toki eikyō hei Shinasoku no taisaku nikansuru ken (The Fall of Fengtian Notes, its Impact, and the Response on the Chinese Side), 18/2/1928, GK, JACAR, B08060893900, slide 349.

⁵⁶ For a discussion of the tension between Wang Yongjiang and Zhang Zuolin, see Ronald Suleski (2002). *Civil Government in Warlord China: Tradition, Modernization and Manchuria*, Peter Lang, New York.

TABLE B:

Estimated Annual Income of Fengtian Province, 1926 in fengpiao and yinyuan (blanket, exchange rate 1 yinyuan to 3.5 fengpiao)

Internal Income (including Land Tax, Combined Tax, Miscellaneous Tax, Income of Official Enterprises, fines and additional miscellaneous taxes)	36,671,300 (10,447,140)
Salt Tax	42,000,000 (12,000,000)
Railway Income	16,800,000 (4,800,000)
Income from China Proper (mainly the tax income of the prefectures in Northern Zhili)	6,000,000 (1,714,285)
Bonds	50,000,000 (14,285,714)
Total	151,471,300 (43,277,514)

Source: Kantōchō zaimubu (Financial Section, Kwantung Leased Territory) (1927). Hōtenshō zaisei no genjō (The Current State of Fengtian Province's Finance), 3/1927, GK, JACAR, B02031788000, slides 12–32.

Limited internal revenue and high expenditure

To deal with internal and external threats, the Fengtian Clique had to maintain a high level of military build-up that Manchuria and the area under the north's control found difficult to sustain. It was unrealistic to discount the threats and focus on economic development: for example, in late 1925, one of the Fengtian generals, Guo Songling, allied with the warlord Feng Yuxiang and invaded Manchuria; during the war, the Soviets aided both Feng and Guo and threatened North Manchuria.

Obtaining precise figures for the revenue of Manchuria is difficult as Mukden's budget was kept secret after 1923.⁵⁷ Moreover, most of the statistics were recorded in *fengpiao*, which witnessed a drastic fall throughout this period. Based on multiple sources and rough evaluations, the Financial Section of the Kwantung Territory authority estimated the regular income of the Fengtian Province in 1926 as 101.47 million *fengpiao*, or 29 million *yinyuan* using the exchange rate of October–November 1926 (1:3.5). Another 50 million should be added as the Fengtian Clique issued a bond to 'recollect' *fengpiao*. The total income of the Fengtian province was 151,471,300 *fengpiao*, or 43,277,514 *yinyuan* (Table B). The estimated expenditure, including the wars in 1925 and Guo Songling's rebellion, was 145.07 million *fengpiao* or, 41.45 million *yinyuan* (Table C).⁵⁸

⁵⁷ Kantōchō zaimubu (Financial Section, Kwantung Leased Territory) (1927). Hōtenshō zaisei no genjō (The Current State of Fengtian Province's Finance), 3/1927, GK, JACAR, B02031788000, slide 10.

⁵⁸ Kantōchō zaimubu, Hōtenshō zaisei no genjō (The Current State of Fengtian Province's Finance), slides 12–32.

TABLE C:

Estimated Annual Expenditure of Fengtian Province, 1926 in fengpiao and yinyuan (blanket, exchange rate 1 yinyuan to 3.5 fengpiao)

Military Expenditure:	
Infantry (45 regiments)	30,240,000
Bodyguards (1 Battalion)	224,000
Cavalry (8 regiments)	8,820,000
Cavalry Raider (3 regiments)	337,500
Artillery (8 regiments)	7,756,000
Engineers (6 battalions)	1,344,000
Logistics (5 battalions)	1,344,000
Communications (1 brigade)	1,344,000
Auxiliary	1,000,000
Fengtian Arsenal	24,000,000
Flying Corps	14,000,000
Navy	1,200,000
Zhang Zuolin's headquarters	1,723,329
Fengtian Military Clothing Factory	1,441,412
Fengtian Military Ration Factory	3,692,948
Military Police, Fengtian Military Academy and others	608,653
Special Budget for war from late 1925 to mid 1926	35,000,000
Military Total	137,040,000 (39,154,285)
Administrative Expenditure	8,030,000 (2,294,285)
Total	145,070,000 (41,448,571)

Source: Kantōchō zaimubu (Financial Section, Kwantung Leased Territory) (1927). Hōtenshō zaisei no genjō (The Current State of Fengtian Province's Finance), 3/1927, GK, JACAR, B02031788000, slides 12–32.

The statistics of the State Bank show that its total draft for military expenditure in 1926 was considerably larger, between 52 and 73.6 million *yinyuan*.⁵⁹ The figure for 1927 was between 581 million and 1.2 billion *fengpiao*, or 93 to 193 million *yinyuan*. Since the end of the year debt was much smaller than the total processed drafts, much of the draft during the year of 1927 was repaid, particularly those pertaining to the Arsenal.⁶⁰ According to the figure presented by the Financial Reorganization Committee in 1929, the military expenditure of the province in 1927 was 663 million *fengpiao* (87.4 per cent of the total

⁵⁹ The number of *yinyuan* was calculated according to the official rate of 0.8:1 between the *fengpiao* and *yinyuan* in 1926 and 0.16:1 in 1927. Although the State Bank did not keep precise figures for expenditure, the researcher of the Financial Section of the Kwantung Government suggested that since all expenditure and drafts went through the State Bank, the actual expenditure must lie between the end of year total draft and total processed draft. See Kantōchō zaimubu, Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), p. 337.

⁶⁰ Ibid., pp. 355, 366.

TABLE D:

Estimated Expenditure of the Fengtian Field Forces in China based on its strength in November 1927 in fengpiao and yinyuan (blanket, exchange rate 1 yinyuan to 3.5 fengpiao)

Infantry (96 regiments)	64,512,000
Cavalry (31 regiments)	34,875,000
Artillery (23 regiments)	22,298,500
Tank (4 Regiments)	3,878,000*
Engineers (28 battalions)	6,272,000
Logistics (27 battalions)	6,048,000
Heavy Weapons (7 battalions)	1,568,000
Communications (1 brigade)	1,344,000
Automobiles (1 battalion)	224,000
Bodyguards (4 Battalions)	896,000
Flying Corps	14,000,000
Navy	1,200,000
Total	157,115,500 (44,890,123)

Source: 'Hoku Shina guntai chōsa ni ken (Investigation of the Northern Chinese Army)', 20/1/1928, JACAR, Co1007465200, slides 20–31.

* The expenditure of tank regiment unknown; each regiment currently counted as the same as an artillery regiment. The Japanese report only suggested that the tanks costed "several million fengpiao" but did not provide exact figure.

expenditure), or 106 million *yinyuan*.⁶¹ The yearly upkeep of the Fengtian forces in China (including the Jilin and Heilongjiang contingents) was around 45 million *yinyuan*, almost the same as the income of the entire Fengtian Province in 1927 (Table D). The rest of the military spending went to the Fengtian forces staying in Manchuria, the Mukden Arsenal (spending between 7 to 55 million *yinyuan*, close to the latter figure), the *Anguojun*'s navy, Beijing's Metropolitan Police and Gendarmes, and Zhang's allies in China.⁶² As a result, the debt increased steadily from 274 million to 1.1 billion *fengpiao* between March 1926 and January 1928.⁶³ This figure should be viewed with caution as it does not take into account the fall of the *fengpiao*. In sum, it is safe to conclude that in late 1927 the military expenditure of Fengtian Province at least doubled after early 1926, and Mukden was able to cover less than half the cost of the war by its normal income.

⁶¹ Kaneko Fumio, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (A Study of the Japanese Investment on Manchuria), p. 502. See Hōten kōshochō Kamata (1928). Hōhyō zanraku toki gen'in – tokumu kikan jōhō (The cause of the fall of the *fengpiao* – from the intelligence service), 14/1/1928, GK, JACAR, Bo8060893800, slide 226.

⁶² According to Sun, he received 800,000 *yuan* per month for this army. See SR, 20/7/1927.

⁶³ Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū* (A Study on the Regional History of Modern Northeast China), p. 154.

TABLE E:
Annual Income of the Shandong Province, April 1926 to March 1927 in yinyuan

Internal Income (including Land Tax, Combined Tax, Miscellaneous Taxes, Income of Official Enterprises, Fines and Additional Miscellaneous Taxes)	19,370,000
Salt Tax (Not mentioned, but probably used to pay for the war)	
Others	4,930,000
Total	24,300,000

Source: Sai Sainan sōryōji Fujita (1927). Santōshō zaisei jōkyō hōkoku no ken, 10/6/1927, GK, JACAR, Bo2031840700, slides 138–139.

The exact military expenditure on the entire *Anguojun* is almost impossible to estimate since the records are patchy. The other two provinces in Manchuria were much smaller and less committed to the war: Jilin's annual income in 1929 was 18.8 million *yinyuan*, whereas its military expenditure was 10 million; military spending in 1929 was probably lower than the previous two years. In Heilongjiang, annual military expenditure was 6.3 million Harbin *dayang* (*hadayang*) in 1926.⁶⁴ In contrast, Shandong was overburdened (Table E). The income of Shandong between April 1926 and March 1927 was 24 million *yinyuan*, but 20 millions were spent on the war.⁶⁵ In comparison, the South was financially better off as the southern provinces were far richer. The Guangdong province alone was able to yield 79.2 million *yinyuan* between November 1925 and October 1926.⁶⁶

Decline of the value of silver

Since the *fengpiao* was convertible in theory, its exchange rate with gold-based currencies such as the Bank of Korea's yen was affected by the international silver price, which steadily declined after the First World War. Backed by silver, the *fengpiao*'s value was *unusually high*

⁶⁴ Shimizu ryōji (1927). Kokuryūkōshō minkoku jūgo nendo kokuka saishutsu yosanhyō tatsunoken (The report on submitting the National Budget of the Heilongjiang Province in the 15th Year of the Republic), 22/3/1927; Consul Shimizu (1931). Minkoku jūhachi, kyū nendo kitsurinshō saishutsu yosangaku (Estimates of the expenditure of the Jilin Province in the 18th and 19th Year of the Republic), 10/4/1931, GK, JACAR, Bo2031787900, slides 7, 40–41.

⁶⁵ Sai Sainan (Jinan) sōryōji Fujita (1927). Santōshō zaisei jōkyō hōkoku no ken (The financial situation of Shandong Province), 10/6/1927, GK, JACAR, Bo2031840700, slides 138–139.

⁶⁶ Hans van de Ven, *War and Nationalism in China*, p. 91.

TABLE F:

Yearly Average exchange rate between kinds of fengpiao and 100 gold yen, 1914–1924

Year	Index	
1917	101	Introduction of <i>huiduiquan</i>
1918	97	
1919	93	
1920	100	Zhi-Anfu War
1921	139	
1922	135	First Zhi-Feng War
1923	138	
1924	168	Second Zhi-Feng War

TABLE G:

Year Average Silver Price in New York, 1920–1928 (US Dollar per 1 oz)

Year	Price
1920	1.01940
1921	0.63096
1922	0.67934
1923	0.65239
1924	0.67111
1925	0.69406
1926	0.62428
1927	0.56680
1928	0.58488

Source: Nishimura Shigeō, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (A Study on the Regional History of Modern Northeast China), p. 154.

when it was introduced as a result of the high silver price during the First World War.⁶⁷ Thus, its value stood on a par with the gold yen in the first few years of its circulation (Tables F and G):

After the war, the silver price dropped, and consequently so did the exchange rate of the *fengpiao*. The silver price fell around 30 per cent from 1919 to 1920, and continued to decline throughout the 1920s. This partly explains the depreciation of the *fengpiao* between 1920 and 1930. Although the silver price remained stable from 1921 to 1925, it fell by 40 per cent from August 1925 to August 1926, the period when the *fengpiao* experienced its first crisis of confidence.⁶⁸ Thus, besides

⁶⁷ Shiroyama Tomoko (2008). *China during the Great Depression: Market, State, and the World Economy, 1929–1937*, Cambridge University Press, Cambridge, p. 33.

⁶⁸ Kantō chōkan Kodama Hideo (1926). Kantō chōkan no tai Hōtenhyō seiri iken (A Proposal to Reorganise the Fengtian Note for the Governor to Kanto Leased Territory), 2/9/1926, No. 653, NGB, 1926, 2:1, p. 665.

the anti-Fengtian War, the fall in the price of silver was another cause for the fall of the *fengpiao* during 1925–1926.

Foreign presence and their financial policies in Manchuria

Foreign presence in Manchuria, particularly Japanese activities, inevitably affected the *fengpiao*. When its value dropped rapidly after 1926, the Japanese in Manchuria encouraged the use of gold yen. As early as mid 1926, the Consul General of Fengtian, Yoshida Shigeru, openly claimed that it had already lost any credibility.⁶⁹ The Japanese Chamber of Commerce in Fengtian was a strong advocate of a positive policy in Manchuria as well as of the use of gold yen.⁷⁰ In 1927, the Japanese Chamber of Commerce of Manchuria urged the Japanese government to establish a central bank in Manchuria.⁷¹ The Japanese currencies undoubtedly weakened the authority of the *fengpiao* as they provided readily available replacements. As Governor Liu Shangqing complained to the British Minister to China, Sir Miles Lampson, the reason why the *fengpiao* could not recover like the Franc was because the French did not have to deal with a competing currency like the gold yen.⁷² The Chinese accused the Japanese of circulating rumours to undermine the stability of the *fengpiao* and of engaging in speculation.⁷³ During this period, currency speculation was rampant, particularly after Japan had issued the Earthquake Bonds; much of this money went into speculation in Manchuria and Shanghai.⁷⁴

⁶⁹ Yoshida sōryōji (1926). *Hōtenhyō geraku heibini Chūkokusaku no taisaku nikansuru ken* (The fall of the *fengpiao* and the Chinese reaction), 12/8/1926, No. 624, NGB, 1926, 2:1, p. 632.

⁷⁰ Ioridani Hōten shogikaitō (Head of the Japanese Chamber of Commerce in Fengtian Ioridani) (1927). *Hōtenhyō mondai taisakuan* (Plans to react to the *fengpiao* problem), 13/9/1927, GK, JACAR, Bo8060893700, slide 181; The Association of the Japanese Residence in Manchuria also advocated the use of gold yen. See *The Association of the Japanese Residence in Manchuria* (1927). *Sengen* (Declaration), 27/8/1927, GK, JACAR, Bo8060893700, slide 187.

⁷¹ Yoshida sōryōji (1927). *Manshu kin'yu seido heini seisaku kaizen nikanshi yōsei no ken* (Financial system in Manchuria and improvement of the government's policy), 18/5/1927, NGB, Vol. 1, p. 613.

⁷² 'Sir M. Lampson to Sir Austen Chamberlain', 21/1/1928, in Kenneth Bourne and Cameron Watt (eds) (1997). *British Documents on Foreign Affairs: Reports and Papers from the Foreign Office Confidential Print* (as FOCP below), Part II, Series E, Vol. 34, p. 209.

⁷³ 'A Review of the Past and present Policy of Japan in South Manchuria', in 'Sir M. Lampson to Sir Austen Chamberlain', 21/2/1928, FOCP, Vol. 34, p. 346.

⁷⁴ Yasutomi Ayumu, *Manshūkoku no kinyū*, p. 38. According to Yasutomi, In early 1926, expecting the silver price to fall, the YSB branch in Shanghai bought large

The *fengpiao* issue was also closely linked to the reorganization of international finance during the 1920s. As the United States became the largest creditor and holder of gold specie after the First World War, American financiers, such as Thomas Lamont, were determined to take advantage of their situation to restructure international finance. Japan too, benefited from the Great War, and financial bureaucrats such as Inoue Junnosuke wanted to emulate the Americans in East Asia and tried to use Japan's gold reserve to expand Japanese influence in China. In 1919, the Finance Minister Takahashi Korekiyo envisaged a plan of lending a gigantic loan of 500–600 million yen to China to dominate the country economically.⁷⁵ The plan did not materialize because of the post-war financial situation, but the plan was not entirely abandoned.

In late 1926, a similar idea on a smaller scale was put forward and endorsed by diplomats, such as Yoshida Shigeru and Kimura Eiichi, the head of the Asia Bureau of the Foreign Ministry. Similar to J. P. Morgan's scheme in the European countries such as Italy, the Japanese would lend money to the Chinese to reorganize their finance. In exchange, a central bank would be established in Manchuria 'with Japanese involvement' and Japanese financial experts would participate in the reform.⁷⁶ Zhang Zuolin rejected the plan, as he feared this would facilitate more Japanese influence in Manchuria.

Japan's intermittent attempts to return to the Gold Standard also affected the financial stability of Manchuria. As a result, from 1924 to late 1925 the value of the Japanese Yen increased by 25 per cent, and continued to rise throughout 1926.⁷⁷ As the gold yen issued by the Bank of Korea were converted to Japanese Yen in Dairen on a 1 to 1 basis,⁷⁸ the rise of the Japanese yen inevitably contributed to the fall of the *fengpiao*. Japan's exports to Manchuria suffered as a result of the government's strong-yen policy, which in turn exacerbated the banks' bad debt problem since the enterprises were losing money. This resulting financial disruption threatened to burst the economic bubble

amounts of the British Pound, Yen and US Dollar, so that when the price of silver did fall, the branch profited much from it. Later in the year when the Yen's price was falling the branch again bought up a large amount of Yen using the profit from the previous speculation.

⁷⁵ Mark Metzler, *Lever of Empire*, pp. 123–124, 164.

⁷⁶ 'Shina jikyoku to shi ka taisaku nikansuru ken (Report on responses to the situation in China)', 26/11/1926, GK, JACAR, B02031895100, slides 233, 238–239.

⁷⁷ Mark Metzler, p. 158.

⁷⁸ Yasutomi Ayumu, p. 36.

built up in Manchuria during the First World War and explained the eagerness of the Japanese in Manchuria to replace the *fengpiao* with Japanese currencies.

After all, the Japanese and Russian presence deprived the Manchurian authority of a large part of the income that could have been used to stabilize the *fengpiao*. Zhang Zuolin could not tap the revenue of the South Manchuria Railway and Chinese Eastern Railway, tax the Japanese businesses in the railway zone, or raise loans from Dairen's Customs revenues. He could not effectively punish the speculators who found refuge in the railway zone; Chinese businessmen also set up branches in the railway zones in order to evade taxes.⁷⁹ Despite Mukden's continuous urge to close it, the Japanese exchange house in the railway zone became a hub of currency speculation, with its volume of trade exceeding a million *yuan* a day.⁸⁰ Although the Fengtian Clique expected to use the Customs surtax income to stabilize the *fengpiao*, this was never available (discussed in detail below).⁸¹ Unlike the Kuomintang in the South, it was impossible for Zhang to take overt action against Japan or Russia, which were both willing and able completely to take over Manchuria. Although it was difficult to substantiate the Chinese accusation that the Japanese had systematically plotted to bring down the *fengpiao*, the very fact that Japanese currencies were circulated in Manchuria had certainly undermined the people's confidence in the *fengpiao*.

The Fengtian Clique's attempts to overcome financial difficulties

In the face of a volatile financial situation that the Fengtian Clique could hardly control, Zhang Zuolin attempted to increase tax revenue in Manchuria, issue internal bonds, borrow internationally, and to seize areas and institutions that had a steady income. In essence, Zhang risked the stability of the *fengpiao* to support a war that had the

⁷⁹ 'A Review of the Past and present Policy of Japan in South Manchuria', in 'Sir M. Lampson to Sir Austen Chamberlain', 21/2/1928, FOCP, Vol. 34, p. 346; 'Sir M. Lampson to Sir Austen Chamberlain', 24/6/1927, F 6980/2/10, FOCP, Vol. 33, p. 130.

⁸⁰ SR, 20/1/1927.

⁸¹ 'Hōtenha no Hōtenhyō seiri keikaku no gaiyō (An overview of the Fengtian Clique's plan to adjust the *fengpiao*)', 6/1927, The Gazette of the Chamber of Commerce in Dairen, GK, JACAR, Bo8060893700, slide 157.

potential to solve his financial problems in Beijing and Manchuria. In the second half of 1927, Mukden was close to success, but the failure to end the war forced it to continue a policy that was detrimental to the confidence in the *fengpiao*. Despite the difficulties, however, the Northern Coalition financial mobilization worked until early 1928.

Issuing fengpiao

Narratives on the *fengpiao* usually focused on ‘the problem of unrestricted issuing’; some even suggesting that it was the ‘worst example of inconvertible notes’.⁸² There was no consensus among contemporaries as to how many *fengpiao* were actually issued during these years. In March 1926, the head of the Bank of Korea reported to Tokyo that there were as many as 400 million *fengpiao* being circulated after Guo Songling’s rebellion, compared with less than 200 million the previous year.⁸³ He had no concrete proof of his estimation except his distrust towards the Chinese official statistics. Contemporary estimations based on exchange rate, issue number on the banknotes, and the projected expenditure of the provincial government produced figures from 300 million to a staggering 2.8 billion between 1925 and 1928.⁸⁴

According to the statistics obtained from the Eastern Three Provinces State Bank, the Financial Section of the Kwantung Leased Territory confirmed in 1929 that the actual amount of *fengpiao* issued was much less than was estimated between 1926 and 1928, especially in 1926. Whereas the head of the Bank of Korea claimed that the Chinese had issued over 400 million, the Financial Section quoted a figure of 181 million. The Financial Reorganization Committee of the Eastern Three Provinces (*dongsansheng caizheng zhengli weiyuanhui*), organized by the Chinese in 1929 to settle the *fengpiao* issue, suggested

⁸² Quotation from Kaneko Fumio, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (*A Study of the Japanese Investment on Manchuria*), p. 502.

⁸³ Chōsen ginkō sōsai Suzuki Shimakichi (The Head of Bank of Korea, Suzuki Shimakichi) (1926), Hōtenhyō no torihiki jōkyō nikansuru ken (Report on the exchange rate of the *fengpiao*), 5/3/1926, NGB, 1926, 2:1, p. 568.

⁸⁴ Kantōchō zaimubu, Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), slides 205–220; Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū*, p. 152.

a slightly higher figure (208 million in March 1926).⁸⁵ The same committee suggested that the amount of *fengpiao* issued by the State Bank reached 325 million in January 1927.⁸⁶ Whilst the Kwantung Government stated 338 million as the figure for the end of 1927, the Reorganization Committee's figure for January 1928 was 470 million. The disparity could only be explained by the increase of the *fengpiao* issued by the end of each year; this largely matched the pattern of the fall of the *fengpiao* presented above.

Although it can be safely assumed that the printing of the *fengpiao* was the cause of its fall, it does not entirely explain the persistent fall in the summer of 1926, the rise and fall during a large part of 1927, its general downward trend since the early 1920s, and the intense fluctuations overall during this period. The relationship between the *fengpiao*'s printing and Mukden's financial mobilization for the war also needs to be clarified.

Increasing tax and manipulating currencies

To sustain the war, the Fengtian Clique employed various ways to raise money in the area under its control. In Manchuria, the proportion of composition tax (tax other than land tax) in Fengtian Province's revenue increased from 41 per cent in 1925 to 64.8 per cent in 1927, showing a large increase in taxation on goods and services.⁸⁷ In late 1927, Mukden even abandoned the ban on opium in the Three Provinces and Rehe.⁸⁸

The allegation that the northern warlords simply printed money to pay for the war was not without substance. As early as in the Zhili-Anfu War in 1920, Fengtian troops carried with them new banknotes specially to be used outside Manchuria.⁸⁹ Since these notes could not be used in Manchuria and its exchange with *yinyuan* was limited, they

⁸⁵ Kantōchō zaimubu, Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), slide 221–225; Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū* (A Study on the Regional History of Modern Northeast China), p. 154.

⁸⁶ Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū*, p. 154; Gavan McCormack, *Chang Tso-lin in Northeast China*, p. 195.

⁸⁷ Nishimura Shigeō, *Chūgoku kindai Tohoku chiikishi kenkyū*, p. 148; Gavan McCormack, *Chang Tso-lin in Northeast China*, p. 196.

⁸⁸ Gavan McCormack, *Chang Tso-lin in Northeast China*, p. 197.

⁸⁹ Kantōchō zaimubu, Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), p. 156.

had little impact on the value of the *fengpiao* (*huiduiquan*). Still, their issue undoubtedly affected the overall confidence in the *fengpiao* and stained the image of the Fengtian warlords.

As the warlords clearly understood the damage of these *ad hoc* measures to their reputation, they made considerable efforts to reclaim these notes. Since military scrip was unwelcome to civilians and soldiers alike, the idea of printing them to cover the cost of war was not feasible. The warlords only saw military scrip as an emergency measure and a necessary evil to shift the cost of war to the neighbouring provinces. Throughout 1926, Zhang Zongchang re-collected and burned much of the military scrip circulating in Zhili and Shandong; the Fengtian forces also had to allow the exchange of *fengpiao* in order not to alienate the population.⁹⁰ However, military scrip was never abandoned as there were no alternatives. For example, when Zhang Zongchang reinforced Sun Chuanfang in Jiangsu in late 1926, 10 million *yuan* in military notes were issued.⁹¹

To an extent, Zhang Zuolin's subordinates in Zhili and Shandong did see money-printing as a means to cover the cost of the war. Zhang Zongchang had issued over 23 million banknotes of the Shandong Provincial Bank by mid-1927, and he issued another 15 million bonds.⁹² As these currencies were more sensitive to the changing military situation, their collapse was as much the result of the political-military failure of the northern warlords as it was of over-printing. When Shandong was largely cleared of National Revolutionary Army and Kuominchun troops in September 1927, the price of the Shandong banknotes was almost on a par with *yinyuan*.⁹³ When the military situation deteriorated again in early 1928, the price suddenly decreased by 60 per cent, effectively bringing an end to their value in commercial activities.⁹⁴

Although the Fengtian Clique was also compelled to print money to ease its financial problem, the scheme was carried out carefully to maximize gain and minimize economic disruption. The practice of

⁹⁰ SR, 27/5/1926; 30/5/1926; 2/6/1926; 12/6/1926; 14/6/1926; 16/6/1926; 17/6/1926, 7; SR, 31/12/1926.

⁹¹ SR, 11/12/1926; 13/1/1927; 9/6/1927; 24/6/1927; 29/6/1927; 28/7/1927; 22/8/1927.

⁹² Su Quanyou (2007). *Zhang Zongchang quanzhuan* (A Complete Biography of Zhang Zongchang), Beijing, pp. 165, 171.

⁹³ SR, 1/9/1927.

⁹⁴ 'Acting Consul-General J. B. Affleck to Sir Austen Chamberlain', 27/3/1928, F2266/22/10, FOCP, Vol. 34, p. 389.

using the bean trade to fund the war and stabilize the *fengpiao* started as early as 1920 and increased significantly between 1926 and 1929.⁹⁵ By the end of each year, the State Bank printed new banknotes to buy future produce from the peasants through both official and private dealers, who in turn sold the produce to Japanese exporters in Dairen in exchange for Bank of Korea gold yen, *yinyuan* or YSB silver notes. Mukden then used the revenue to pay for the war or to re-collect the depreciated *fengpiao*. For example, from mid January to early March 1927, Mukden allowed an exchange of *fengpiao*, *yinyuan* and gold yen on a limited scale, and this immediately led to a rise in the price of *fengpiao*.⁹⁶ However, as only part of the revenue was used to stabilize the *fengpiao* and the rest went to Zhang's war chest, the fall continued.⁹⁷

By issuing new notes, manipulating commodity trade in Manchuria, and allowing controlled depreciation, Mukden was levying a kind of indirect tax from the Chinese in Manchuria. This method also allowed the state to expand its control over the economy through the State Bank. Mukden's measures also forced the Japanese to pay for its war as long as they needed raw material from Manchuria. Unlike the British during the American Civil War, who found an alternative source of cotton to those of the Confederate States, the Japanese could not find an alternative source of soybean. Even the Japanese observers from the Financial Department of the Kwantung Bureau (*Kantōchō*) admitted that Mukden's method was 'rational' and 'effective'.⁹⁸ In fact, the Fengtian leaders had little choice—blindly printing money or forcing the banking community to accept bonds would have backfired. It was impossible for Zhang to cover his debts by printing money even if he wanted, as the people in Manchuria could switch to other currencies, as they had done in 1928 despite the government's threat of punishment.

Throughout the war, Mukden tried to control the fall of the *fengpiao* by measures ranging from raising bonds to executing speculators. When the *fengpiao* fell substantially in 1926, Mukden blamed the 'speculators' operating in the South Manchuria Railway zone and had

⁹⁵ *Kantōchō zaimubu, Tōsanshō kangingō ron* (A Discussion on the Finance of the Eastern Three Provinces), slide. 323.

⁹⁶ SR, 17/1/1927; 19/1/1926; 8/3/1927.

⁹⁷ *Kantōchō zaimubu, Tōsanshō kangingō ron* (A Discussion on the Finance of the Eastern Three Provinces), slide 325; 'Sir M. Lampson to Sir Austen Chamberlain', 21/1/1928, F 1085/50/10, FOCP, Vol. 34, p. 209.

⁹⁸ *Kantōchō zaimubu, Tōsanshō kangingō ron* (A Discussion on the Finance of the Eastern Three Provinces), slide 325.

several of them arrested and shot. This move soured Mukden-Tokyo relations; Japanese Consulate-General in Mukden, Yoshida Shigeru, accused Zhang of perpetuating 'Terrorism'.⁹⁹ Zhang also issued a bond of 50 million in mid 1926 in Manchuria, ostensibly in order to 'reorganize' the *fengpiao*. Although 70 per cent of the bonds were purchased (many under compulsion), a large portion of the funds collected was used to fund war.¹⁰⁰ The government also forbade the use of *yinyuan* and gold yen for transactions and private exchange, but the Japanese, who believed that the Chinese were trying to drive their currency out of Manchuria, opposed the ban.¹⁰¹

In late 1927 to early 1928, *fengpiao* was sacrificed in a gamble to achieve the grand-strategic goal of the Fengtian Clique, when the Fengtian leadership tried to muster all available resources for the campaign of 1928. Their confidence in their ability to obtain money from China Proper was shown by Zhang's promise in February 1928 to limit Fengtian Province's military expenditure to 30 million *yinyuan* (one-third of the figure in 1927), or 50 million *yinyuan* in total for the Eastern Three Provinces. Zhang also promised to detach Manchuria financially from North China, as he expected that if the 1928 campaign were successful, the Beijing Government would thereafter be able to hold its own.¹⁰²

Thus, from late 1927 to early 1928, Mukden again used the *fengpiao* to mobilize the provinces' resources for war. In January 1928, the government even decreed the use of *yinyuan* in tax collection, a move that signed the death warrant of the *fengpiao*. Mukden also abandoned the exchange control between *yinyuan* and *fengpiao* in Tianjin. They started to sell *fengpiao* in bulk by the end of 1927 in order to extract any single *yinyuan* or gold yen they could gather to pay for the 1928

⁹⁹ Yoshida sōryōji (1926). dai 247 gō, 22/8/1926, NGB, 1926, 2:1, p. 645; Yoshida sōryōji (1926). dai 257 gō, 28/8/1926, NGB, 1926, 2:1, p. 655; Kantōchō zaimubu, Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), slide, 231.

¹⁰⁰ Kantōchō zaimubu, Tōsanshō kangingō ron (A Discussion on the Finance of the Eastern Three Provinces), slide 283.

¹⁰¹ SR, 18/3/1927; Yoshida sōryōji (1926). dai 250 gō, 26/8/1926, NGB, 1926, 2:1, p. 651; Kaneko Fumio, *Kindai Nippon niokeru tai manshū tōshi no kenkyū* (A Study of the Japanese Investment on Manchuria), pp. 504–505.

¹⁰² Sai Hōten sōryōji dairi Hachiya (1928). dai 98 gō, 7/2/1928, GK, JACAR, Bo8o6o8938oo, slide 299.

Offensive.¹⁰³ It was these measures that led to the collapse of the *fengpiao* in January–February 1928. During the collapse, even the staff of the State Bank and officials engaged in speculative trading of the currency. Since people were expecting the *fengpiao* to fall, they first sold those in their possession then bought more from the futures market. As the futures price of the *fengpiao* fell further, the collapse became irreversible.¹⁰⁴ Still, Mukden had not yet abandoned the *fengpiao*, probably fearing widespread social unrest. In January 1928, the governor of Fengtian Liu Shangqing told the British of his determination to maintain the *fengpiao* and asked them for loans to stabilize it.¹⁰⁵

Issuing bonds or borrowing

Another option for the Fengtian leaders was to issue internal bonds in Beijing, but it was no easier than raising money in Manchuria. When Wu Peifu and Zhang Zuolin took Beijing in early 1926, he expected to obtain internal and external loans to maintain the central government and end the civil war. Instead of acquiring loans, however, he inherited the government's previous debts and a bad credit history.¹⁰⁶ Even

¹⁰³ Hōten kōshochō Kamata (1928). Hōhyō zanraku toki gen'in – tokumu kikan jōhō, 14/1/1928, GK, JACAR, Bo8060893800, slide 228–230; Sai Hōten sōryōji dairi Hachiya (1928). dai 46 gō, 6/2/1928, GK, JACAR, Bo8060893800, slide 295.

¹⁰⁴ See Tanaka ryōji (1928). Hōtenhyō bōraku shin'in nikanshi hōkoku no ken (A report on the real cause of the fall of the *fengpiao*), 3/2/1928, GK, JACAR, Bo8060893800, slides 278–279.

¹⁰⁵ 'Sir M. Lampson to Sir Austen Chamberlain', 21/1/1928, F 1085/50/10, FOCP, Vol. 34, p. 209.

¹⁰⁶ The long-term causes of the financial problems of the Beijing Government during the mid 1920s were the decline of its authority since the late Qing period and the Powers' unwillingness to lend money to it during the 1920s. For the internal and external debt problems of the Beijing Government, see Roberta Allbert Dayer (1981). *Bankers and Diplomats in China*, Frank Cass, London, pp. 8–9, 12, 23–26; Xu Yi (2006). *Cong bainian quru dao minzhu fuxing: Beiyang waizai yu xinhai geming de chengbai* (From Chaos to National Revival: Foreign Loans of the Beiyang Government and the Success of the Xinhai Revolution), Jingji kexue chubanshe, Beijing, pp. 96–99; Mark Metzler, *Lever of Empire*, p. 111, 122, 127; Mo Jianlai (2004). *Wanxi junfa tongzhi shigao* (A History of China under the Rule of the Wanxi Warlords), Tianjin guji chubanshe, Tianjin, pp. 145–157; Zhang Qixiang (2005), *Beiyang zhengfu shiqi de jiuliugongzai shuping* (Assessing the 96 Bond of the Beiyang Government), *Shixue yuekan*, 2005:6.; Pan Guoqi (2007). 'Beiyang zhengfu shiqi guonei gongzhai zong-e ji qi zuoyong pingxi (A Study of the Total Amount of Internal Bonds Issued by the Beiyang Government and its Impact)', in *Jindaishi yanjiu*, 2007:1, p. 78.

before the Fengtian Clique was in control of Beijing, the Chinese banking community had been unwilling to service any loans or bonds issued by the Beijing Government. This also had much to do with the manager of the Bank of China Zhang Jia-ao (Chang Kia-ngao). Zhang came from a wealthy family in Jiangsu. He was educated in Japan before serving in the Bank from 1915. Armed with modern banking knowledge and connections in the banking circle, he became politically powerful. Through Huang Fu, who played an important role in linking Chiang Kai-shek and the Japanese, Zhang turned to Chiang and financed his Northern Expedition.¹⁰⁷

The Chinese Maritime Customs Service was also increasingly unwilling to cooperate with Beijing. A report submitted in 1927 by Leonard Arthur Lyall, the Inspector of Customs in Shanghai from 1919 to 1925, represented the Service's view. Lyall complained that the Inspector General Sir Francis Aglen:

by giving his guarantee for the repayment of internal loans secured on the revenue, [Aglen] has enabled the Peking Government to use for its own purposes not only the current year's revenue, but also the revenue that will be collected by the Customs throughout China for some years to come.¹⁰⁸

He believed that the loans only brought more wars to China:

[the] vast majority of the money borrowed has not been spent on any useful object. Much of it has been wasted, and much more has been spent on armaments, which have been employed in civil war generally, and in attempting to conquer South China in particular [original highlights].¹⁰⁹

Working in Shanghai throughout his career, Lyall held a very low opinion of the Beijing Government. He wrote:

this Government has, for a number of years, been undeserving of any credit, and has used its credit merely to enrich its friends and promote civil war, [and] the improvement of its credit has not been a benefit to China.¹¹⁰

This view was shared by other staff in the Customs Service. To preserve China's credit rather than the Beijing Government's, Aglen was determined not to allow the Chinese government to set up new

¹⁰⁷ Hans van de Ven, *War and Nationalism in China*, p. 126.

¹⁰⁸ Report by L. A. Lyall on control of Revenue by Customs Inspectorate', 28/5/1927, *Sir Frederick Maze's Confidential Letters and Reports* (SFMCLR), p. 37.

¹⁰⁹ Ibid., p. 40. Original highlights.

¹¹⁰ Ibid., p. 43.

loans, internal or foreign, with Customs revenue.¹¹¹ In late 1926, Aglen refused to ratify the cheque signed by Pan Fu, the new Minister of Finance.¹¹² When he rejected Pan's proposed loan to pay the interest of the 96 million Bond, its price fell substantially, causing a small financial panic in Beijing and further undermined the authority of the Beijing Government.¹¹³

Thus, when Premier Wellington Koo proposed to arrange a new internal loan in the summer of 1926, it was opposed by both the Customs Service and Zhang Jia-ao.¹¹⁴ In early September, another proposed bond issue was axed by the Customs Service, which argued that the Beijing Government was beyond any hope of revival.¹¹⁵ The Chinese banking community in Beijing was equally uncooperative. When Koo met the head of the Chinese banks to discuss a loan of two to three million *yuan* for the Mid-Autumn Festival after the failed attempt to issue bonds, the bankers refused, saying they could only offer 500,000.¹¹⁶ Still, the bank refused to pay when the metropolitan garrison went to the Bank of China with the cheque issued by the government, on the pretext that the contract between the bank and the government had not been signed. According to Koo, the Bank of China breached convention, which was that of signing the contract after money had been paid. This almost led to a mutiny, and was resolved only because Koo had previously arranged another loan with an American bank.¹¹⁷

Zhang Zuolin's attempt to seek foreign loans also met with little success. He first approached the Japanese for a loan in late 1926, but he abstained from borrowing from the Japanese because they

¹¹¹ Chen Siqu (2005). *Zhongguo jindai haiguan shi (History of Modern Chinese Maritime Customs)*, Renmin chubanshe, Beijing, pp. 495–498.

¹¹² SR, 1/12/1926.

¹¹³ SR, 5/12/1926; 11/12/1926.

¹¹⁴ 'Edwardes' telegraph to I.G.', 30/7/1926, SFMCLR, p. 5; 'Edwardes' telegraph to I.G.', 4/8/1926, SFMCLR, p. 6; 'Edwardes' telegraph to I.G.', 24/8/1926, SFMCLR, p. 7.

¹¹⁵ 'Edwardes' telegraph to I.G.', 1/9/1926, in SFMCLR, p. 8; 'Edwardes' telegraph to I.G.', 7/9/1926, SFMCLR, pp. 9–10; 'Edwardes' telegraph to I.G.', 8/9/1926, SFMCLR, pp. 10–11.

¹¹⁶ Wellington Koo (1983). *Gu Weijun hui yi lu (Memoir of Wellington Koo)*, Zhonghua shuju, Beijing, pp. 285–286, SR, 1/9/1926; 10/9/1926; 16/9/1926.

¹¹⁷ Wellington Koo, pp. 284–289. Koo wrote in his memoir that the bonds were not issued. However, the newspaper in Beijing reported that the bonds were issued but that they were not recognized. See SR, 20/9/1926.

TABLE H:
Income of the Beijing Government, July 1927 (in yinyuan)

Customs Revenue (estimation)	500,000
Zhang Zuolin's personal contribution	100,000
Treasury of Zhili	65,000
Treasury of Shandong	25,000
Treasury of Fengtian (land tax)	40,000
Tianjin Customs (surtax revenue)	31,000
Manchuria Customs (surtax revenue)	30,000
Total	791,000

Source: SR, 21/6/1927.

demanded that he stop his campaigns in China.¹¹⁸ When Yang Yuting approached the British in November 1927, the British Minister to China Sir Miles Lampson told him that it was possible, but only when the North was able to end the war with the Kuomintang.¹¹⁹ Without new sources of revenue and foreign support, throughout the period when the Fengtian Clique controlled Beijing, it was unable to raise any internal or external bonds and had to rely on its Customs and Salt revenues (which could not be used as collateral for loans), tax income from the area under *Anguojun*'s control (which were mostly used for military purposes), and Zhang Zuolin's own contributions (see Tables H and I).

The Customs Surtax

The source of revenue that the *Anguojun* leaders saw as the life saving straw was the Customs Surtax. Its origin was the Powers' decision to fix China's tariff through the unequal treaties acts during the nineteenth century. After the establishment of the Republic in 1912, restoring tariff autonomy had been a major diplomatic objective of successive governments in Beijing.¹²⁰ During the Washington Conference in 1921, it was agreed that after the signatories ratified the Nine Power Pact, a Tariff Conference would be held to discuss the Chinese tariff

¹¹⁸ 'Hōtenha kōhoku shinshutsu to shika taisaku nikansuru ken (Reaction to the Fengtian Clique's advance into the Jiangbei area)', 26/11/1926, GK, B02031895100, slides 232–233, 238–239.

¹¹⁹ 'Sir M. Lampson to Sir Austen Chamberlain', 1/12/1927, F 378/7/10, FOCP, Vol. 33, pp. 396–400.

¹²⁰ Li Enhua (1993). *Beifa qianhou de geming waijiao (1925–1931)*, Academia Sinica, Taipei, pp. 91–95;

TABLE I:
Income of the Beijing Government, April 1928 (in yinyuan)

Customs Revenue	220,000
Tobacco and Alcohol Tax	100,000
Salt Gabble	14,000
Surtax Revenue	50,000
Ministry of Justice	20,000
Ministry of Communication	11,000
Chamber of Commerce	50,000
Proposed loan from the Customs Service	300,000
Ministry of Communication (reserved for the Ministry)	44,000
Zhang Zuolin's personal contribution (not mentioned but promised)	100,000
Total	865,000
Total, excluding Zhang Zuolin's contribution	765,000

Source: SR, 29/4/1928.

issue. Nonetheless, the conference was delayed by the 'gold franc' dispute, which was solved after the Chinese accepted the French demand in 1925.¹²¹ After three invitations, the Tariff Conference was finally scheduled to be held on 26 October in Beijing.¹²² Although subsequent wars in North China brought the Tariff Conference to a halt, it was agreed that China would have full tariff autonomy in 1929, and before that China could collect a surtax of 2.5 per cent of the value of the imported goods. The conference was supported by America and Japan, who both wanted to use the new surtax to secure their loans such as the gigantic Nishihara Loan.¹²³ On the other hand, the British wanted to stop the Conference, and withdrew their representatives in April 1925.¹²⁴ Aglen supported the postponement, and suggested to the Customs office in London that Britain could use the seizure of

¹²¹ During the First World War, although Britain and America remitted the Boxer Indemnity to China, France, Italy, Belgium and Spain insisted that China should pay the Indemnity in gold rather than in their depreciated currencies. From 1922 to 1924, negotiations between China and France became bogged down, and the French government refused to ratify the Nine-Power Pact. The failure to restore tariff autonomy seriously handicapped Beijing's ability to keep its control over the provinces, particularly those in the South. See Arthur Waldron (1995). *From War to Nationalism: China's Turning Point, 1924–5*, Cambridge University Press, Cambridge, p. 32.

¹²² Chen Siqi, *Zhongguo jindai haiguan shi (History of Modern Chinese Maritime Customs)*, p. 126.

¹²³ Roberta Allbert Dayer, p. 230.

¹²⁴ SR, 1/5/1926; 6/5/1926.

the salt revenue in Tianjin by Zhang Zuolin's forces as an excuse to postpone the Conference indefinitely.¹²⁵

When the Beijing Government was seemingly about to collapse in late 1926, the only objective of Aglen and his second-in-command, Edwardes, was the preservation of the Customs Service, but both found it increasingly difficult to do this as the Powers, including Britain, were no longer willing to back the Service with force. Alarmed by the Kuomintang's decision to collect the surtax, Aglen urged the Powers to protect the Service by stressing its importance in maintaining trade and servicing foreign loans.¹²⁶ Aglen argued that the Service could 'weather any political changes that may come' if the Powers were willing to act.¹²⁷ He threatened the British Government with a possible Japanese takeover of the Service, and in December even wanted to mobilize the press in Britain to pressure the Foreign Office to take action to protect the Service.¹²⁸

As the support of the Powers was unavailable, Aglen adopted an 'opportunistic' attitude as Chen Shiqi put it.¹²⁹ When the Kuomintang appeared to be winning and was determined to collect the surtax by itself, he was ready to compromise in order to protect the Service's position. In mid-November, he asked the Foreign Office for support in working out a solution that would 'regularize new taxation and enable Maritime Customs to function in connexion with it if Powers determined not to resist'.¹³⁰ As Hankow had fallen to the National Revolutionary Army and the fall of Shanghai was probable, the British government also became more conciliatory towards the Kuomintang. Aglen, still officially an employee of the Beijing Government, supported the move. In a telegraph to the Foreign Office, he suggested that:

[the] opinion of [the] Chinese here interested in maintaining stability and avoiding catastrophe is that [a] more defined form of recognition of [the] Nationalist Government by Foreign Powers [is] inevitable in [the] near future and that meanwhile contact other than through Canton Consular representatives [is] very desirable.

¹²⁵ 'Aglen to London Office', 13/6/1926, SFMCLR, Volume 2, 1926–1929, p. 3.

¹²⁶ Ibid., 28/11/1926, SFMCLR, p. 16.

¹²⁷ Ibid., 2/12/1926, SFMCLR, p. 18.

¹²⁸ Ibid., 1/12/1926, SFMCLR, p. 17; Ibid., 2/12/1926, SFMCLR, p. 18.

¹²⁹ Chen Shiqi, *Zhongguo jindai haiguan shi (History of Modern Chinese Maritime Customs)*, p. 160.

¹³⁰ 'Aglen to London Office', 13/11/1926, SFMCLR, p. 13.

He also argued that Britain's recognition of the Kuomintang government would ease the 'inferiority complex' of the Kuomintang and make them more conciliatory.¹³¹

Perhaps to justify his turn to the South, Aglen became increasingly critical of the northern government. In early December, he cabled London that '[the] so called [Beijing] Government [is] approaching collapse and I believe Japanese recognition of South [is] imminent.'¹³² He also argued that his refusal to remit the revenue of the surtax to the Beijing Government was an 'impartial' act that placed the Service above politics.¹³³ By then, Aglen was determined to preserve the Service by working with the Kuomintang government. Although it is difficult to evaluate how much the Customs Service affected Britain's attitude towards the situation in China, both shared the same idea that they had to work with the Kuomintang to protect their interests in China.

After using strike action to force the Powers to allow it to collect the surtax, the Kuomintang threatened to dismantle the Customs Service to paralyse the Beijing Government. In December 1926, the Nationalist's Foreign Minister, Eugene Chen, told Aglen that if the Services complied with Beijing's instruction to collect the surtax, it might lead to a 'disruptive effect on [the] Service'. Anxious to protect the Service, Aglen accepted Chen's demand once the Kuomintang promised to leave the Customs Service alone. In the same telegraph, to justify his action, Aglen noted that 'Chang Tso-lin [Zhang Zuolin] here [is] trying to galvanise [the] Government into [a] semblance of reality but unless he can produce funds there will be no real change'.¹³⁴ This attitude partly undermined Zhang's efforts to raise money in Beijing.

When the Beijing Government decided to collect the Customs surtax in the area under its control in early 1927, the north was controlling Shanghai, Tianjin, and other major ports in Shandong and Manchuria. Thus, Zhang was in an equal, if not better, position to threaten to dismantle the Customs Service. However, Beijing was unwilling to act unilaterally, as Zhang Zuolin wanted to present his approach as an alternative to the Kuomintang's 'revolutionary diplomacy' to enlist external support. Whilst Beijing was planning to issue a bond secured by the surtax revenue, Aglen was in Hankow, seeking an understanding

¹³¹ Ibid., 16/11/1926, SFMCLR, p. 14; Ibid., 28/11/1926, SFMCLR, p. 16.

¹³² Ibid., 5/12/1926, SFMCLR, p. 19.

¹³³ Ibid., 13/12/1926, SFMCLR, p. 20.

¹³⁴ Ibid., 29/12/1926, SFMCLR, p. 21.

with the Kuomintang. Supported by Zhang Jia-ao, Aglen ignored Beijing's order to return.¹³⁵ Aglen was in a difficult position. On the one hand, Beijing was determined to collect the surtax.¹³⁶ On the other hand, Eugene Chen threatened to dismantle the Customs Services if the Service collected the surtax for the Beijing Government.¹³⁷ As Aglen did not follow Beijing's order, he was dismissed by Premier Wellington Koo on 1 February. The Diplomatic Corps was astonished by the dismissal and urged Koo to retract his order.¹³⁸ Koo refused, and was backed by the public who opposed foreign intervention in what was seen as an internal affair of the Chinese government.¹³⁹ The British Minister, Sir Miles Lampson, tried to force Koo to retract his order by preventing Edwardes from assuming Aglen's post, but backed down when Beijing threatened to appoint Frederick Maze, the inspector of Shanghai, as Aglen's successor.¹⁴⁰ The dispute was temporarily solved when Beijing granted Aglen a one-year sick-leave instead of dismissing him.

Throughout 1927, the Japanese and the Customs Service tried to sabotage the North's attempt to collect the surtax. In early February, the acting Inspector General Edwardes ordered the inspectors in the northern ports not to collect the surtax despite Beijing's order.¹⁴¹ The Japanese government claimed the surtax was a violation of the Washington Treaty of 1921.¹⁴² In February, the Japanese Minister to China, Yoshizawa Kenkichi, declared that Japan opposed the collection of the surtax no matter how it was collected, and called for a new Tariff Conference.¹⁴³ This Japanese opposition delayed the collection of surtax in the north. Among the major ports in the north, Andong and Harbin started to collect surtax in April, and Fengtian in May.¹⁴⁴

¹³⁵ Wellington Koo, *Gu Weijun hui yi lu (Memoir of Wellington Koo)*, p. 305.

¹³⁶ 'Mr. Lampson to Sir Austen Chamberlain', 3/1/1927, F 1934/2/10, FOCP, Vol. 32, p. 96.

¹³⁷ Chen Siqi, *Zhongguo jindai haiguan shi*, p. 166.

¹³⁸ Wellington Koo, *Gu Weijun hui yi lu (Memoir of Wellington Koo)*, p. 309.

¹³⁹ SR, 8/2/1927; *Dagongbao* (DGB), 15/2/1927.

¹⁴⁰ Wellington Koo, *Gu Weijun hui yi lu (Memoir of Wellington Koo)*, pp. 309–312.

¹⁴¹ SR, 9/2/1927.

¹⁴² 'Sir Austen Chamberlain to Sir J. Tilley', 24/1/1927, F 706/2/10, FOCP, Vol. 32, p. 43.

¹⁴³ SR, 13/2/1927.

¹⁴⁴ Chen Siqi, *Zhongguo jindai haiguan shi (History of Modern Chinese Maritime Customs)*, pp. 157–159; SR, 31/3/1927.

As the Japanese dominated the trade which was conducted in North China and Manchuria, Japanese resistance against the surtax was fatal. Although leaders of the Fengtian Clique expected that the surtax would enable them to stabilize the currency and fund the war in mid 1927, they were to be disappointed.¹⁴⁵ Since then, the fall of the *fengpiao* had become more difficult to reverse. Japanese opposition persisted throughout the war. In January 1928, the Clique tried to persuade the Japanese to cooperate on the surtax issue in exchange for a new Japanese consulate in Maoershan, but they refused.¹⁴⁶

The military situation also made it difficult for the North to collect the surtax. After the loss of Nanjing and Shanghai in March, the North could not claim a larger share of the surtax revenue.

Financial collapse of the Fengtian Clique

The loss of Shanghai and the north's failure to retake it decided the outcome of the financial contest between the Kuomintang and the northern warlords. In late 1927, the situation was similar to that of 1911, when the Southern forces were in control of most of the commercially developed areas in South China. However, the South's control was more complete in 1927, as Wuhan was also in the Kuomintang camp. It was a major reason for the Powers, in particular Britain, to turn to the South. In 1911, when the North and the South were negotiating peace, the British Minister to China, Sir Arthur Jordan, suggested that Britain could not ignore southern opinion because they controlled the area where British commercial interests were prominent. The German Minister, von Haxthausen, went further and suggested that Britain's China policy was driven by the commercial interest in Shanghai.¹⁴⁷ The South's better financial position in late 1927 was reflected by its ability to borrow: in September, the Beijing Government could only issue 5 million bonds secured by the surtax; at the same time the Kuomintang issued 24 million bonds backed by surtax revenue, and an extra 16 million

¹⁴⁵ 'An overview of the Fengtian Clique's plan to adjust *fengpiao*', 6/1927, The Gazette of the Chamber of Commerce in Dairen, GK, Bo8060893700, slide 157.

¹⁴⁶ Yoshizawa kōji (1928), dai 50 gō, 17/1/1928, GK, JACAR, Bo2030035900, slides 352–253.

¹⁴⁷ Yang Tianshi (2002). *Cong dizhi zouxiang gonghe: xinhai qianhou shishi fawei* (From Empire to Republic: Historical Issues Before and After the Xinhai Revolution), Shehui kexue wenxian chubanshe, Beijing, p. 272.

bonds were issued in January 1928.¹⁴⁸ Without adequate money or credit, Zhang Zuolin could do little to exploit the infighting of the Kuomintang and compete with it politically (see Tables H and I).

The succession crisis and North-South peace, January to June 1928

In 1928, the Beijing Government tried to settle the Customs issue and use it as an opening for a north-south peace conference. However, the April Campaign of 1928 ended not only this effort but also the Beijing Government itself. On 27 January 1928, the Finance Minister of the Nanjing Government, T. V. Soong, declared that China had achieved 'tariff autonomy'. Soong claimed that the Kuomintang had already controlled 16 provinces and 65 per cent of the Customs revenue.¹⁴⁹ The press in North China questioned Soong's claim, and suggested that the Nanjing Government was no stronger than the Beijing Government.¹⁵⁰ Lampson also dismissed the Kuomintang's claim as 'absurd'.¹⁵¹

It was in this context that the Nanjing Government invited Edwardes to go to Shanghai in January, an action that revealed their conciliatory attitude. According to Wang Kemin, the North's representative to Nanjing, the Kuomintang was ready to negotiate with the north and would 'raise no objection to his [Edwardes'] appointment nor nominate a Southern Inspector-General with the object of splitting the Customs'. Even if Edwardes did not go, they would 'allow things to stay as they are'.¹⁵² The Kuomintang also approached the Chinese Minister to the United States, Alfred Sze, for a possible 'diplomatic rapprochement' with the Beijing Government, so that a united diplomatic delegation could be formed to discuss treaty revision with the Powers.¹⁵³ Encouraged by Wang's information, Edwardes decided to go to Shanghai. On 19 January, Lampson reported that Nanjing

¹⁴⁸ SR, 23/9/1927; 4/10/1927; 12/1/1928.

¹⁴⁹ DGB, 29/1/1927; Martyn Atkins (1985). *Informal Empire in Crisis: British Diplomacy and the Chinese Customs Succession, 1927-1929*, Cornell University Press, New York, p. 68.

¹⁵⁰ DGB, 29/1/1927.

¹⁵¹ Martyn Atkins, p. 69.

¹⁵² 'Sir Miles to Sir Austen Chamberlain', 11/1/1928, F222/46/10, FOCP, Vol. 34, p. 9.

¹⁵³ 'The Chargé in China (Mayer) to the Secretary of State', 20/2/1928, 893.00 P. R./3, No. 1403, *Papers Relating to the Foreign Relations of the United States* (PRUS), CC 1928 Vol. II, p. 121.

was willing to negotiate with the North on the Customs issue on 'non-political lines'.¹⁵⁴

The Americans believed that Zhang Zuolin also wanted peace with Nanjing to 'bring about an appearance of political unity in China sufficient to persuade the Powers that they are warranted in commencing negotiations for tariff adjustment and treaty revision'.¹⁵⁵ In fact, Beijing was thinking the reverse—it was hoping to use the issue of treaty and tariff revision as a starting point to end the civil war. Premier Pan Fu intimated to Lampson that the North was trying to bring about an understanding with Chiang Kai-Shek, whose position was affected by the success of the Guangxi Clique in Hunan and Hubei. According to Pan, although Chiang could not openly abandon his Northern Expedition, he desired to reach an understanding with the north. Lampson promised to urge Kuomintang leaders to 'do the common sense thing and make peace'.¹⁵⁶ Lampson also met Liang Shiyi, who suggested that a united diplomatic delegation could be the starting point of a peace negotiation.¹⁵⁷

Lampson probably shared Liang Shiyi and Beijing's views. In reply to Chamberlain's query on the issue, he wrote that as other governments in China would repudiate any national tariff put forward by one government, it is important to have a meeting of all parties in China to discuss the issue. Lampson went on to suggest that after a commission had been formed to compile the tariff, a similar commission could be set up to negotiate with the Powers about this new tariff, therefore taking 'the rights and functions of a united Foreign Affairs Commission so far as the tariff and its allied questions are concerned'.¹⁵⁸ Lampson did not mention the peace negotiation to Chamberlain as the latter might have considered Lampson's involvement to be intervening in Chinese politics. Without the blessing of Chamberlain, any attempt to mediate between the warring parties had little chance of success.

¹⁵⁴ 'Sir Miles to Sir Austen Chamberlain', 19/1/1928, F 311/46/10, FOCP, Vol. 34, p. 21.

¹⁵⁵ 'The Chargé in China (Mayer) to the Secretary of State', 1/3/1928, 893.00/9851, No. 1410, PRUS, CC 1928 Vol. II, p. 125.

¹⁵⁶ 'Sir Miles to Sir Austen Chamberlain', 31/1/1928, F 500/7/10, FOCP, Vol. 34, p. 60.

¹⁵⁷ 'Minute of Interview between His Majesty's Minister and Mr. Liang Shiyi', in 'Sir M. Lampson to Austen Chamberlain', 1/2/1928, F 1398/7/10, FOCP, Vol. 34, p. 271.

¹⁵⁸ 'Sir Miles to Austen Chamberlain', 22/2/1928, F 731/5/10, FOCP, Vol. 34, p. 128.

With the probable support of the Beijing Government, the northern press also advocated using the tariff negotiation as a prelude for a national peace conference. The Peace Conferences of 1912 and 1919 may well have been in people's minds. In January, *Shijie ribao* reported that 'sensible men' proposed to use the tariff issue as a means to unify the country's foreign relations.¹⁵⁹ A commentator of the *Dagongbao* was more direct. He criticized Edwardes for not using the opportunity of the negotiation to facilitate a ceasefire between north and south.¹⁶⁰ Beijing soon formed a committee headed by Premier Pan Fu and consisting of Wellington Koo, Liang Shiyi, and other experts.¹⁶¹ The active participation of these people suggested that those in the north did see the new conference as a possible breakthrough of the political deadlock in China.

However, the north's attempt to bring about a peace settlement in China foundered as Chiang Kai-Shek continued the Northern Expedition in late March. Pan Fu probably miscalculated when he said that Chiang actually wanted peace; in fact, Chiang was the strongest proponent of a northern advance in 1928. Chiang's allies, such as Feng Yuxiang, also opposed the tariff conference, claiming that it would only help the Beijing Government.¹⁶² As Chiang had to counter the growing power of the Guangxi Clique, he could not lose Feng as an ally, and in order to contain internal dissension, he decided to continue the war. In mid-January, to pay for the military campaign to unify China, the Nanjing Government issued an additional 16 million *yuan* bonds secured by the surtax.¹⁶³ By early March, according to Lampson, Nanjing's programme was already 'either Peking or bust'.¹⁶⁴

Conclusion

The 'collapse' of *fengpiao* was more the result of the political-military failure of the *Anguojun* between 1926 and 1928 than a failure of fiscal policy. Zhang had to sustain his war effort amidst the powers' imperial presence, the volatile interwar international economic environment,

¹⁵⁹ SR, 20/1/1928.

¹⁶⁰ DGB, 26/2/1928.

¹⁶¹ SR, 4/2/1928.

¹⁶² SR, 22/2/1928.

¹⁶³ SR, 12/1/1928.

¹⁶⁴ 'Sir Miles to Sir Austen Chamberlain', 20/3/1928, F 1339/5/10, FOCP, Vol. 34, p. 252.

the fall of the silver price, and Japan's effort to restore the Gold Standard and expand her financial control in Manchuria. These factors also affected the *fengpiao*, an inconvertible currency heavily dependent upon faith in Zhang Zuolin's military success.

To finance the *Anguojun*, the north stretched the banking system and commodity trade in Manchuria to its limits, but the pressure of war forced Zhang Zuolin to adopt measures that were detrimental to his financial and political positions. These actions were taken because it was expected that a Fengtian victory in China Proper would eventually free Zhang Zuolin from the above mentioned constraints. However, Mukden had to pay a political price for its financial mobilization. By allowing the depreciation of the *fengpiao*, Zhang weakened his people's buying power. This might not have been a problem in other societies as the state could have stepped in to maintain the subsistence of the population through price control. However, as Japanese business interests saw Manchuria as a vital outlet for their products and investment, Mukden's policy was seen as deliberately obstructive to 'free trade'. The Japanese in Manchuria used the case to urge their government to act decisively in Manchuria.¹⁶⁵ Although Shidehara was unmoved by these urgings and even argued that Japan should give up its interest in Manchuria in exchange for a bigger market in China,¹⁶⁶ he was replaced by Tanaka, who favoured strong Japanese action.

The failure of Zhang Zuolin and the northern warlords to secure enough financial support was an important factor in their defeat and the collapse of the *fengpiao*. The Customs Service and the Powers played an important role in these intertwined issues. Although Zhang somehow managed to mobilize its financial resources in Manchuria to support his war machine, he needed more money to reform the Beijing Government in order to compete with the Kuomintang politically and to minimize the impact of his financial mobilization in Manchuria. Without controlling Shanghai, Zhang could not enlist the support of the Powers and the Customs Service, and had to delay the introduction of the necessary reforms in the North, a prerequisite for foreign recognition and further help, and had to stretch the finance of Manchuria to its limit. Worse still, the inability to end the war

¹⁶⁵ '(no title) A joint petition of the Japanese Chamber of Commerce in Fengtian and the Japanese Association in Fengtian to the Minister of Foreign Affairs Shidehara Keijiro', 4/9/1927, GK, Bo8060893700, 184.

¹⁶⁶ 'Sir J. Tilley to Sir Austen Chamberlain', 26/1/1928, F 1121/7/10, FOCP, Vol. 34, p. 218.

prevented the Northern Coalition from obtaining new sources of revenue and from borrowing money from internal and external sources in order to stabilize the *fengpiao*. This pushed the Fengtian Clique into a vicious circle of worsening financial and political situations.

The Kuomintang's success in Hankow, Shanghai and Nanjing and their threats to split up the Customs Service in late 1926 convinced the British Government as well as the Chinese Maritime Customs Service and the Chinese bankers to turn to the them. To protect its image as a potentially competent central government, Beijing could not take extreme measures despite its desperate financial situation. It was in this context that Zhang Zuolin tried to levy the surtax and solicit foreign support. Japanese opposition against the surtax and the loss of Shanghai deprived Beijing of much of the surtax income. On the other hand, after capturing Shanghai, the Kuomintang was able to use the surtax to issue bonds to fund its war effort.

By 1928, the future of the Kuomintang was hardly promising, but the Powers did not change its attitude since the former was still controlling Shanghai and nominally Canton and Hankow. In contrast, Beijing had little to offer besides its success in maintaining relative peace and stability in Beijing, Tianjin and Manchuria. Although Beijing was successful in persuading Lampson to agree to use the tariff conference as an overture for a negotiated peace, the political deal between the major Kuomintang warlords had finally encouraged Chiang Kai-Shek to renew the Northern Expedition, thus sealing the fate of the Beijing Government.