

Delayed Currency Reform and China-Japanese Railway Competition

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満州における幣制改革と日中鉄道問題

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Abstract

This article argues that Zhang Xueliang considered the sharp fluctuation of silver prices as an effective tool to hedge his counterpart in Japan. In the short run, it turned out to be valid for him to impair Japan's growing economic control on Northeast China and further cultivate China's economic strength. It also helps us to better understand why Zhang Xueliang decided to delay the currency reform from the existing silver standard system to the new gold standard system. Considering the domestic economic situation back then, it was obvious that abandoning the silver standard system could be regarded as a rational choice rather than the other way around. However, from the perspective of handling the economic relations with Japan, maintaining the silver standard was a better choice.

The crash of silver prices ended up causing a dramatic collapse of freight rates in Chinese domestic railways, which pushed a large number of transportation services to be transferred to Chinese railway network. Also, it seriously hit the earnings of the South Manchuria Railway and put it into a dilemma. Therefore, Zhang Xueliang viewed this as a crucial opportunity to fight against the South Manchuria Railway, and gradually transferred the control of transportation, economy and industry back to the hands of Chinese.

Under such a severe situation, the South Manchuria Railway offered to hold negotiations on the railway issue since January, 1931. However, Zhang Xueliang did not want to reach a quick agreement with Japan, and he decided to take a delay strategy during the negotiations and hoped to damage the South Manchuria Railway as long as possible.

Key Words : gold-silver ratio, currency reform, railway, Zhang Xueliang

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1. Introduction

Since the 1920s, the currency system in Northeast China had been in a state of chaos. There were more than 100 different kinds of currencies in Northeast China, including foreign currencies of Japan, which had greatly damaged the proper development of economy, finance, industries and commerce in this region (逸飛 1932、pp.11-24). What's more, as China still adopted the silver standard system, the crash of silver prices since 1929 further put an inevitable impact on China's currencies more seriously.

The Feng Warlord (奉系軍閥) realized that it was important for China to promote currency reform, so as to strengthen the credibility of the Fengpiao (奉票) and further safeguard the national interest from other foreign currencies. After Zhang Zuolin (張作霖) took the power of controlling the Northeast China politically, he tried to establish a central bank system to unify the currency circulation since early 1920s (滿史會 1964、pp.814-815). And it greatly affected the realization of Japan's strategic objectives in this region. After Zhang Zuolin was murdered in 1928, his son Zhang Xueliang (張學良) announced the replacement of all flags (易幟) and China was symbolically reunified as a complete country. In addition, Zhang Xueliang also poured great efforts into promoting currency reforms and effectively resisting the financial invasion from Japan (西村 1992、pp.507-553 ; 滿鉄 1930、pp.29-30).

Under the historical context like above, many people considered that the Northeast China should discard the obsolete system of the silver standard and adopt a new currency system of gold standard or gold exchange standard system, and further promoted the currency unification process (東省經濟 1927、p.2). Indeed, the traditional silver standard system caused a significant level of economic losses for both international trade and currency exchanges at that time, and many Qianzhuang (錢莊) and Yin hao (銀號) (old-style Chinese private banks) could not avoid a series of repeated bankruptcies in turns. At the same time, Japan tried to exploit this opportunity to stockpile a large amount of agricultural products from Northeast China (時報 1930.01.20、p.1).

In addition, an official report written by the Financial Consolidation Committee of Northeast Provinces of China (東三省金融整理委員會) also pointed out the advantages for Northeast China to adopt the gold standard system: "the three provinces have already used gold and silver currencies simultaneously, so it is not difficult to adopt the gold standard system; the three provinces maintain the trade surplus status, so it is not necessary to accumulate a large amount of gold reserves; the circulating currencies in the three provinces are mostly banknotes, so it is easy to recall them; there are many gold mines in the three provinces, so it will be more convenient for storing gold reserves" (東三省 1931、pp.8-14). Although Zhang Xueliang was fully aware of the serious economic drawbacks fundamentally rooted from the existing silver standard, he did not take an immediate action of transforming the entire structure for currency system. On the contrary, he intentionally delayed Northeast China's transformational process toward the gold standard and audaciously determined to accept the consequences mostly caused by the meltdown of silver prices. If so, why did Zhang Xueliang make this kind of irrational decision? And why did he intend to delay

the transformational process to the gold standard or the gold exchange standard system?

This article aims to argue that Zhang Xueliang considered the sharp fluctuation of silver prices as an effective tool to hedge his counterpart in Japan. In the short run, it turned out to be valid for him to impair Japan's growing economic control on Northeast China and further cultivate China's economic strength.

2. Literature Review

Why did Zhang Xueliang delay the transformational process to the gold standard or the gold exchange standard system? First, some previous studies argue that the initial conditions for adopting the gold standard were still not mature enough to be institutionalized or materialized. In this sense, Su Jing points out that "our economic strength was still not enough to adopt the gold standard, and the gold exchange standard system will also hurt our economic independence. Therefore, the Northeast China should follow the silver standard and wait for a more suitable time" (夙兢 1929a, pp.1-3). And the Financial Consolidation Committee of Northeastern China also emphasizes that "the costs of minting gold coins and raising reserves were extremely huge, which was too difficult for China" (东三省 1931、 p.13).

Second, some existing literatures mention that Zhang Xueliang hoped to maintain a strong level of consistency with the inner China (関内) in currency system narrowly and avoid unnecessary economic division or conflicts broadly. Nishimura argues that Zhang Xueliang pursued the goal of the financial unification with the inner China, thus persisted in conducting the currency reforms based on the original silver standard (西村 1992、 p.542). Fujii argues that the Nanjing Government was calling for a unified currency system across the whole China, so it was hard to adopt a monetary system which was totally different from the central government (藤井 1930、 pp.3-4). Nomura defines this phenomenon as the Centralization of Three Northeast Provinces (東三省中央化), which indicated that Zhang Xueliang tried to be consistent with the central government on structural issues (野村 1961、 p.85). Lin Quanqing indicates that "considering the internal economic and political relations with Shanghai, Tianjin, Shandong, etc., the Northeast China should not adopt the gold standard before the inner China. The silver standard was still the more appropriate choice" (林泉清 1929、 p.25). Furthermore, if the Northeast China had decided to jump into transforming to the gold standard prior to the other parts of China and simultaneously purchased a large amount of gold in a short period of time, it would have inevitably affected the global supply chain of the gold and silver markets and aggravate the chronic depreciation of silver prices, which would finally worsen the entire economy of inner China (东三省 1931、 p.14).

Third, Japan's Bank of Korea actively promoted the circulation of gold notes (金票) in the Northeast China. Namikata argues that Japan wanted to promote the Korea-Manchuria Financial Integration and enlarge the Gold Yen Bloc (金円ブロック). Therefore, Japan hoped to help Manchuria change to the gold standard system (波形、 p.408). If Zhang Xueliang had abandoned the silver standard, it would have inevitably resulted in eliminating China's institutional shield

against the monetary expansion of Japanese gold notes in this region. Hence, as an endeavor to resist Japan's economic aggression, "there was no alternative other than silver standard" (林泉清 1929、p.25). Su Jing argues that "it was more important to ban foreign currencies than implement currency reform in the Northeast China" (夙兢 1929b、p.6). In addition, adopting the silver standard would also help combat Japan's dumping policy and the gold notes standard (金票本位) policy (银行周报 1929、p.74). Yang Yi further points out that "foreign capital has caused great damage to the Northeast China, and the deadliest was the Japanese gold notes" (杨一 1929、p.3).

Fourth, some studies argue that low exchange rate brought about by the falling silver price was conducive for China's foreign trade. Haggard emphasizes that if a country want to adopt an export-oriented strategy, its exchange rate policy preference always tends to be currency depreciation (Haggard 1990, pp.24-25). Guo Zhihua points out that with the development of the international agricultural product market in the late 1920s, Zhang Xueliang was making use of the low exchange rate to promote exports of agricultural products (郭志华、p.13).

The existing studies analyze some reasons why Zhang Xueliang delayed the transition to the gold standard or the gold exchange standard system. However, these explanations seem to ignore the economic competition between China and Japan in the Northeast China. During this period of time, the silver standard and the change of gold-silver ratio became an important tool for Zhang Xueliang to deal with its economic relations with Japan, and further expel Japan's control of Northeast China's economy. This article finds that by maintaining the silver standard system, Zhang Xueliang successfully gained some additional leverage or bargaining power he could not have before, so as to protect its national interests as much as possible (姚锦祥 2018、p.48).

The core economic contradiction then was the railway issue, and the South Manchuria Railway (满铁) played an important role in Japan's control of the Northeast China. It commanded the transportation and industries in this region and limited the desirable development of Chinese domestic railways. However, the South Manchuria Railway adopted the gold notes standard in freight rates (运货) settlement, while the Chinese railways adopted the silver standard. The crash of silver prices led to a sharp decrease of freight rates in Chinese domestic railways, which caused a large number of transportation services to be transferred to Chinese railway network. In due course, it seriously hit the earnings of the South Manchuria Railway and put it into a dilemma of managing the current business model (草柳 1983、p.113). Therefore, Zhang Xueliang viewed it as a crucial opportunity to fight against the South Manchuria Railway, and gradually transferred the de facto control of transportation, economy and industry back to the hands of Chinese.

3. The Consequences of Gold-Silver Ratio Change and Zhang Xueliang's Choice

Since the crash of silver prices in 1929, the gold-silver ratio had also undergone major changes, which brought great challenges and opportunities for both Chinese and Japanese governments. The key factor depended on who could successfully adapt to these changes much faster at first and then formulate corresponding policies for years to come.

Table 1 the Changes of Gold-Silver Ratio from 1925 to 1931

Year	1925	1926	1927	1928	1929	1930	1931
Gold-Silver Ratio	29.38	32.88	36.22	35.26	38.24	53.38	71.30

Source : 中国第二历史档案馆 (1996) 《国民政府财政金融税收档案史料：1927-1937年》、中国财政经济出版社，第410页。

3.1 Gold-Silver Ratio Change and Its Impacts on South Manchuria Railway

The South Manchuria Railway had been influenced by silver price changes since its establishment (満鉄会 2007、p.110). However, there had been no such sharp silver price fluctuations like 1929. As mentioned above, it made the freight rates of Japanese railways increase rapidly. The farmers and enterprises in Northeast China began to use China's state-owned railways to transport agricultural products and minerals. At that time, railway transportation, as well as ports and mines, accounted for around 63.5% of the total earnings of the South Manchuria Railway, so it was damaged seriously and its profits had been significantly reduced (満鉄 1991a、序論).

Table 2 Revenues and Expenses of the South Manchuria Railway

Year	Revenue (yen)	Expense (yen)	Profit (yen)
1929	240,998,062.130	195,492,205.090	45,505,857.040
1930	188,104,062.660	166,430,600.710	21,673,461.950
1931	187,054,401.670	174,455,781.950	12,598,619.720
1932	245,940,674.490	184,652,949.540	61,287,724.950

Source : 南満州鉄道株式会社 (1991) 『統計年報 昭和7年度(上)』龍溪書舎、序論。

In addition, as Japan lifted the gold embargo in the early 1930, the gold-silver ratio continued to expand, which further reduced the competitive advantage of Japanese railways. The Consul Arakawa Mitsuo realized that this might be an important means for China to absorb freight and passenger transportation. Not only did China take advantage of changes in gold-silver ratio, it also took the initiative to further reduce the freight rates on its state-owned railways (外務省 1930、p.2). Some employees of South Manchuria Railway also regarded it as China's planned and organized action to oppress Japanese railways, causing them to end up with bigger deficits (関東軍 1931、pp.3-4).

In order to reduce costs, the South Manchuria Railway chose to take massive layoffs. In 1930, a total of 899 employees were laid off, and this figure rose to 2014 in 1931 (満鉄会 2007、p.112；新聞報 1930a.06.25、p.8). The reduction of personnel also began to weaken South Manchuria Railway's control of the Northeast China.

At this point, the bilateral competition between Japanese railways and Chinese state-owned railways became highly obvious and fierce (铁路公报 1931、p.3). This kind of competition was prominently manifested in two aspects: one was passenger and freight transportation, and the other was transportation routes. The passenger revenue of Japan's railways dropped by 34.3% in 1930 and

continued to drop by 20.3% in 1931. Besides, the freight income of Japan's railways dropped by 22.9% in 1930 and continued to drop by 9% in 1931 (滿鉄 1991a、 p.274 ; 滿鉄 1991b、 p.286). More importantly, Zhang Xueliang continuously built his own branch lines and new ports, which was in an attempt to replace the transportation routes through the railways and ports controlled by Japan (外務省 1931a、 p.2).

All these have seriously challenged Japan's core interests in Northeast China. Japan also realized that the key to this problem lay in the changes on gold-silver ratio and the freight rates gap between China and Japan. Therefore, Japan started to negotiate with Zhang Xueliang on the freight rates issue, but Zhang refused to make adjustments quickly. Shortly before the Manchurian Incident, Japan realized that the negotiations could not achieve any results, and announced that the South Manchuria Railway adopted the silver standard in its settlements (銀行周報 1931、 p.60 ; 铁路月刊 1931、 p.12). But in the end, Japan completely solved this problem through war.

3.2 Zhang Xueliang's Choice of Maintaining the Silver Standard System

At that time, Zhang Xueliang was faced with two choices: abandoning the silver standard so as to minimize the negative effects of falling silver prices, or maintaining the silver standard as a means to combat the South Manchuria Railway? The former option focused on maintaining the financial and currency stability in the Northeast China and solving the immediate difficulties. However, the latter emphasized the exclusion of foreign control and eliminated the structural obstacles for Chinese domestic industries..

The chambers of commerce and ordinary people strongly urged for the adoption of gold standard system since early 1930, and the Northeast Administration Committee (東北政務委員会) had to respond in July 1930 that it began to discuss the implementation of gold standard system (新聞報 1930b.07.09,p.6). Then Zhang Xueliang organized the Financial Consolidation Committee of Northeast Provinces of China to explore the currency reform plan. This committee published a report in late 1930, which agreed to the future goal of establishing the gold standard system, but it still believed that the most reasonable system at present was "a combined system of gold and silver" (金銀並行). It emphasized that there were two prices under this system, namely a gold-standard price and a silver-standard price (东三省 1931、 p.170). The silver standard price could help to reduce the freight rates and the burden of ordinary people, which was very necessary at that time. Therefore, it could be seen that although the calling for adopting gold standard system was very strong, the Northeast Administration Committee was still concerned about the price advantage under the silver standard system. It also indicated that the immediate transition to the gold standard system was rejected.

A document from the Liaoning Provincial Government clearly showed that China had already made freight rates as the main tool to fight against Japanese railways:

"China's state-owned railways face fierce competition from Japan, so China's freight rates should

be lower than Japan's, thus they can have advantage in absorbing more transportation. It is an important method to combat Japan. At the same time, low freight rates can also reduce the burden on Chinese businessmen and farmers, and further promote the development of China's industry and economy" (辽宁 1930、JC010-01-003785).

Zhang Xueliang realized that he unexpectedly possessed a tool in his policy tool box to confront Japan's control. Some public opinions also began to emphasize China's big opportunity brought about by changes in gold-silver ratio (赵镜元 1931、p.335). Besides, the Northeast Traffic Committee (東北交通委員会) further reduced freight rates and tariffs, and only charge 30% of the fare for farmers (黄埔 1930、p.20). Zhang also emphasized that it was strictly prohibited to collect any additional charges or harsh taxes except legal freight rates (辽宁 1929、JC010-01-031825). He paid close attention to the situation of the South Manchuria Railway and was determined to completely expel Japan's influence (辽宁 1931、第123号). Indeed, the financial issue had long plagued the Feng Warlords since the 1920s, but Japan was obviously a bigger threat for Zhang Xueliang. Therefore, it might be a better choice for him to maintain the silver standard and further weaken Japan's economic control over the Northeast China

However, although Zhang Xueliang was faced with an unprecedented opportunity, he must reconsolidate the financial system on the basis of silver standard at first. Due to severe inflation and currency devaluation, many Chinese railway companies were unwilling to accept Fengpiao and other Chinese silver banknotes in 1928 (辽宁 1928、JC010-01-008166). If it was still impossible to curb hyper-inflation, the advantages brought out by gold-silver ratio change would also be neutralized.

Zhang Xueliang ordered to reorganize the Provincial Bank of the Three Eastern Provinces (東三省官銀号) to the central bank of northeast China, and unified the issuance of currency (银行月刊 1928, p.288). At the same time, this central bank and three other bank giants also formed the Joint Issuance Reserve Fund (聯合發行準備庫) to issue a new silver dollar exchange certificate (辽宁1929, JC010-01-009988). Before the issuance of new banknote, this central bank purchased a large amount of silver bullions in Beiping and Tianjin, and then minted them to silver dollars. The central bank used these silver dollars to collect circulating old banknotes, especially Fengpiao. And the new banknote was issued after the old banknote recycling rate reached over 60% (around 800 million yuan) (辽宁 1930、JC010-01-009988).

According to the regulations of the Joint Issuance Reserve Fund, strict management and inspection would be implemented so as to ensure the credit of the new currency. For example, the issued banknotes must include 70 % of silver reserves and 30 % of other asset reserves, namely a 100% reserve ratio. The following table showed 19 times of reserve inspections from June 1929 to the end of 1930.

Table 3 19 times of Inspections on the Joint Issuance Reserve Fund

	Date	Issuance amount	Silver reserve	Other assets
1	1929.06.30	2,000,000	1,400,000	600,000
2	1929.07.30	2,900,000	2,030,000	870,000
3	1929.08.31	3,900,000	2,730,000	1,170,000
4	1929.09.30	5,000,000	3,500,000	1,500,000
5	1929.10.31	5,000,000	3,500,000	1,500,000
6	1929.11.30	5,500,000	3,850,000	1,650,000
7	1929.12.31	8,300,000	5,810,000	2,490,000
8	1930.01.04	10,000,000	7,000,000	3,000,000
9	1930.02.28	10,800,000	7,560,000	3,240,000
10	1930.03.31	11,050,000	7,735,000	3,315,000
11	1930.04.30	11,050,000	7,735,000	3,315,000
12	1930.05.30	11,300,000	7,910,000	3,390,000
13	1930.06.30	11,300,000	7,910,000	3,390,000
14	1930.07.31	11,800,000	8,260,000	3,540,000
15	1930.08.30	13,600,000	9,520,000	4,080,000
16	1930.09.30	15,000,000	10,500,000	4,500,000
17	1930.10.31	15,000,000	10,500,000	4,500,000
18	1930.11.29	15,000,000	10,500,000	4,500,000
19	1930.12.30	15,000,000	10,500,000	4,500,000

Source: this form is made by the author, and the data came from 19 *Inspection Reports on the Joint Issuance Reserve Fund* (《联合准备库检查报告》) published by the Provincial Bank of the Three Northeast Provinces.

As could be seen from the table above, the Fund had implemented management of the reserves strictly, and the new currency basically maintained its credit and value. And the silver dollar exchange certificate had replaced the Fengpiao as the core element in economic operation. Zhang Xueliang basically unified the financial system in Northeast China in 1930:

- (1) In official, private, and commercial sectors, the Northeast China has implemented the silver dollar (現大洋) standard system.
- (2) All the old local banknotes will be withdrawn and currency issuance will be unified.
- (3) The Provincial Bank of the Three Eastern Provinces will act as the national treasury (国庫) of Northeast China (中央銀行 1930、p.13).

Zhang Xueliang promoted the currency unification on the basis of the silver standard system and then maintained financial stability in this region as a whole. It had curbed the growing trend of inflation and improved the credit and acceptance of Chinese silver banknotes. It created the basic conditions for China's competition with Japanese railways. Backed by this, Zhang began to negotiate with Japan on railway issue, and gave full play of the currency power through this process.

4. China-Japanese Railway Negotiations and Zhang Xueliang's Delay Strategy

Under such severe situation, the South Manchuria Railway offered to hold negotiations on railway issue since January, 1931 (史料満鉄 2011、 p.86). Zhang Xueliang and Director Kimura held several rounds of talks in Shenyang, but no consensus has been reached. Japan mainly had two concerns: first, Japan hoped to negotiate freight rates with China, so as to reduce the damage caused by the change of gold-silver ratio; second, Japan required China not to take this opportunity to develop its own railway plan and avoid challenging the core interests of the South Manchuria Railway in Northeast China (张春浩 1931、 p.17). Facing with Japan's aggressive attitudes, Zhang Xueliang did not want to reach an agreement with Japan too soon. He took a delay strategy during the negotiations and hoped to damage the South Manchuria Railway as long as possible.

4.1 Delay Strategy in Freight Rates Negotiations

As mentioned above, the freight rates issue was the root cause of China-Japan railway competition, and the change of gold-silver ratio gave China a competitive advantage. Therefore, delay was the best strategy for China. As long as no agreement was reached, it would be a victory for China.

Some Japanese officials also seemed to be aware of this strategy. Consul-General Hayashi Kyujiro mentioned that, "Chinese representatives always talk about the current situation in an abstract manner without addressing specific issues" (辽宁 1991、 pp.331-332). Director Kimura clearly pointed out that Zhang Xueliang tried to avoid any talks, and his delay strategy undermined the vested interests of the South Manchuria Railway and intensified the opposition between China and Japan (史料満鉄 2011、 p.57).

Therefore, Japan proposed a detailed plan for dealing with the freight rates issue:

- (1) The freight rates should be based on the currency of a third country. (American dollar)
- (2) The freight rates must be negotiated in some districts.
- (3) In principle, the freight rates and other fees should be kept the same amount in these districts.
- (4) If it is necessary to reduce freight rates, China and Japan need to negotiate in advance (史料満鉄 2011、 pp.124-125).

From this plan, it was clear that Japan hoped to eliminate China's advantage brought about by the change of gold-silver ratio. Japanese representatives also emphasized that it was precisely because of the change of gold-silver relations that triggered the current problem, and China surely had the ability to make a proper adjustment to it. Chinese representatives seemingly acknowledged the necessity of negotiating freight rates, but they were still looking for methods to delay the negotiation process (安徽 1931、 p.56 ; 南浔 1931、 p.8).

First, Zhang Xueliang and many local media always emphasized that the Northeast Administration Committee was a local government and had no right to make the final decision (外務省

1931b, p.13). And its railway budgetary power had already been handed over to the Nanjing Government (辽宁 1929、JC010-01-008111). So he advised that if Japan wanted to solve this problem, it also needed to talk with Nanjing (时报 1931.03.06、p.3). During the entire negotiation process, he maintained close communications with Nanjing and sought for its help (新闻报 1931.05.17、p.11). In March 1931, China's Ministry of Railways convened a national conference on freight rates, and suggested Northeast China to adopt lower freight rates to cope with Japan's competition (辽宁 1930、JC010-01-003785). Therefore, Zhang Xueliang flexibly used his subtle relations with Nanjing Government to achieve the purpose of additional delay.

Second, some Chinese representatives emphasized the inequality in Japan's proposal on freight rates. They believed that the strength of Chinese railways lagged far behind that of the South Manchuria Railway, so it was unfair for them to adopt the same freight rates (史料满铁 2011、pp.139-140). However, while negotiating freight rates with Japan, Zhang Xueliang still proactively tried to lower the current price, so as to absorb more transportation (辽宁 1931、JC010-01-008142). It clearly showed that the negotiation was only a matter of means rather than an objective for Zhang Xueliang.

Due to the repeated delays in negotiations, Japan seemed to have begun to think whether it claimed too much on freight rates. Japan decided to mitigate its tough attitude and adopt a conciliation policy (新闻报 1931.05.22、p.6). Japan tried to use "easing loan conditions" as a bargaining chip in exchanges for Zhang Xueliang's concessions (辽宁 1991、p.333). However, they did not realize that Zhang's goal was to expel Japanese control ultimately, not making compromises.

4.2 Delay Strategy in China's Railway Plan

The change of gold-silver ratio would not only help Chinese railways to absorb more transportation, but also, more importantly, it would help China take this opportunity to promote its own railway construction plan. This railway nationalism has greatly hurt Japan's interests and sparked its strong dissatisfaction (满铁、出版年不明、p.612).

Japan's concerns were mainly concentrated on two points: The first was the so-called parallel line (並行線) issue, which aimed to compete positively with the South Manchuria Railway; the second was the Huludao (葫蘆島) port issue, which attempted to establish a new export transportation route. Zhang Xueliang hoped to build a Chinese railway network, so as to completely block the Japanese railways in a real sense (辽宁 1930、JC010-01-008109). And he ordered that Japan should be prohibited from building railways and controlling the mines in Northeast China (辽宁 1930、JC010-01-008294). In addition, Zhang also asked Nanjing to help promote the railway plan (外務省、出版年不明a、p.441). And then the Nanjing government helped Zhang to negotiate with foreign construction companies (except Japanese companies), so as to obtain discounted prices (辽宁 1929、JC010-01-009204).

Therefore, Zhang Xueliang believed that there was a huge gap in opinions between China and Japan, and there was no need to promote negotiations too quickly (外務省、出版年不明b、pp.245-246).

During the negotiations on the railway plan, Chinese representative Gao Jiye remained cautious and tried to narrow the scope of the negotiations. On the contrary, Japanese representative Kimura had been trying to expand the scope of the discussion (国闻 1931、p.8). And it made the negotiations deadlocked as China wanted.

In order to speed up the railway construction plan, Zhang Xueliang asked Nanjing Government for financial assistance and requested to establish a Northeastern Railway Construction Fund (外務省、出版年不明c、p.356). It further convinced Japan that Zhang had firmly established the ambition to promote his railway plan. At the same time, Japan also warned that “if China forcibly builds parallel lines and port projects, serious events will inevitably occur. Japan will use all means to prevent this from happening” (辽宁 1991、pp.331-332).

At this time, Japan seemed to be convinced that the negotiations could not move on in the direction that they wanted. Therefore, they sought to change the most basic thing: the gold-silver ratio. The South Manchuria Railway decided to move to silver standard from Siping to Yingkou, which essentially reduced freight rates (铁道 1931、p.17). In addition, other railway lines which still adopted the gold standard also drastically cut off freight rates, so as to absorb more transportation (农业周报 1931、p.20). The bilateral railway competition between China and Japan was increasingly unable to coordinate. Later, the outbreak of the Manchurian Incident finally solved this problem. Since October 1931, Japan had completely broken China’s railway plan, and its railway revenue has grown rapidly since then (新时代 1931、p.2).

5. Conclusion

Why did Zhang Xueliang delay the transition to the gold standard or the gold exchange standard system? This article gives a new explanation that Zhang Xueliang wanted to use of the silver prices and silver standard as a tool to negotiate with Japan, so as to impair Japan’s economic control on Northeast China and further cultivate its own economic strength. Considering the domestic economic situation, abandoning the silver standard seemed to be a more rational choice. However, from the perspective of handling the economic relations with Japan, maintaining the silver standard was a better choice.

The crash of silver prices led to a sharp decrease of freight rates in Chinese domestic railways, which caused a large number of transportation services to be transferred to Chinese railways. It seriously damaged the earnings of the South Manchuria Railway and put it into a dilemma. Therefore, Zhang Xueliang viewed it as a crucial opportunity to fight against the South Manchuria Railway, and gradually transferred the control of transportation, economy and industry back to the hands of Chinese.

Under such severe situations, the South Manchuria Railway offered to hold negotiations on railway issue since January, 1931. Facing with Japan’s aggressive attitudes, Zhang Xueliang did not want to reach an agreement with Japan too soon. He took a delay strategy during the negotiations and hoped to damage the South Manchuria Railway as long as possible.

This article finds that, by maintaining the silver standard system, Zhang Xueliang successfully gained some additional leverage or bargaining power that he could not have before, so as to protect its national interests in the best possible manner. It also indicates that weak countries can flexibly use economic tools to deal with their relations with stronger powers (姚錦祥 2018、p.47).

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