Gaining Currency

CHAPTER 1

A Historical Prologue

> At the end of the day's journey, you reach a considerable town named Pau-ghin. The inhabitants worship idols, burn their dead, use paper money, and are the subjects of the grand khan.
>
> *The Travels of Marco Polo the Venetian*, Marco Polo

Such was the strange behavior of the denizens of China in the thirteenth century, as narrated by Marco Polo. Clearly, using paper money was a distinguishing characteristic of the peoples the famed itinerant encountered during his extensive travels in China, one the explorer equated with what Europeans would have regarded as pagan rituals. Indeed, the notion of using paper money was cause for wonderment among Europeans at the time and for centuries thereafter; paper money came into use in Europe only during the seventeenth century, long after its advent in China.

That China pioneered the use of paper money is only logical since paper itself was invented there during the Han dynasty (206 BC–220 AD). Cai Lun, a eunuch who entered the service of the imperial palace and eventually rose to the rank of chief eunuch, is credited with the invention around the year 105 AD. Some sources indicate that paper had been invented earlier in the Han dynasty, but Cai Lun's achievement was the development of a technique that made the mass production of paper possible. This discovery was not the only paper-making accomplishment to come out of China; woodblock printing and, subsequently, movable type that facilitated typography and predated the Gutenberg printing press by about four centuries can also be traced back there. These two inventions, which occurred during the Tang (618–907 AD) and Song (96–1279 AD) dynasties, were also important technologies supporting production of paper money in large quantities.

Box 1.1 TIMELINE OF MAJOR DYNASTIES AND GOVERNMENTS (QIN AND LATER) IN CHINA

Qin dynasty:	221 BC–206 BC
Han dynasty:	206 BC–220 AD
Sui dynasty:	581–618
Tang dynasty:	618–907
Song dynasty:	960–1279
Yuan dynasty:	1260–1367
Ming dynasty:	1368–1644
Qing dynasty:	1644–1911
Republic of China:	1912–1949
(Kuomintang):	1928–1949
People's Republic:	1949–present

During the Tang dynasty, China began using a rudimentary form of paper money known as *Fei Qian*, which functioned essentially as certificates of deposit issued to merchants by deposit shops where the merchants left coins or goods as collateral. The name given to this money, which translates as "flying money," reflected the fact that it was printed on paper that, unlike metal coins, could be blown away by the wind. The name also signified the speed with which these certificates could be transported relative to metal coins. These certificates were tradable and accepted in some regions, but only in limited circulation.

It was three hundred years later, during the Song dynasty, that paper money came into widespread use. During the early period of that dynasty, modestly valued bronze coinage was in circulation as the principal form of money. However, the expanding scale of commerce in the Sichuan region and rising prosperity made it increasingly cumbersome and impractical to use these heavy coins for business transactions.

Around the tenth century, a type of banknote referred to as *Jiao Zi* (a rough translation is "exchangeable money") first appeared in Chengdu, the capital of Sichuan province. This currency was similar to the Tang dynasty's certificates of deposit. As the use of money permeated all levels of society and all spheres of economic activity, the rapidly growing demand for currency led to shortages known at the time as "currency famines" (*qianhuang*). Subsequently, a form of paper currency referred to as *Hui Zi* ("citadel money") was issued in 1160, but this time exclusively by the government, which had taken over from private deposit shops the role of issuing tradable currency. The Song court aggressively promoted the use of its currency, establishing several government-run factories to make paper money in the cities of Anqi, Chengdu, Hangzhou, and Huizhou. It is said these factories had large workforces by the standards of the time; records indicate that in the year 1175, the factory at Hangzhou employed more than a thousand workers.

MONETARY DEBATES IN ANCIENT CHINA

The Song government prohibited private issuance of currency on the grounds that only the government could ensure a reliable supply of a currency stable enough to support economic activity. This ruling, however, provoked controversy. The role of the state in issuing money had in fact been the subject of intense deliberation even during the Han dynasty, nearly a thousand years predating the Song, when only metallic money was in circulation. Those early discussions of the role of money in society and of who should have the prerogative of issuing it took place within the broader context of the "Salt and Iron Debates" of the Han era. These debates, held in the imperial court around 80 BC and featuring more than sixty scholars of various stripes and persuasions, focused largely on the role of the state relative to that of the private sector in managing the economy.

Many Confucian scholars at the time held that a state monopoly on the coinage of money was best avoided as it would allow the state to debase its own coin with impunity. As proponents of reduced state intervention in every aspect of the economy, they made the case that the market would compel private issuers of money to maintain its value, arguing "the sovereign provides for the people's welfare by not restricting the use of the natural resources of the mountains and the seas; he facilitates the use of currency by not prohibiting people from freely minting coin."

Government officials in charge of fiscal and financial matters were arrayed on the other side of the debate, enjoying the support of another set of scholars. This group contended that a state monopoly over the issuance of money was the best defense of sound money, which was seen as essential for economic prosperity. Even Sima Qian, a celebrated Chinese historian of the Han era and an ardent advocate of laissez-faire economic policies, argued that the issuance of money must remain a prerogative of the government. In his magnum opus entitled *Shi Ji* [Records of the Grand Historian]—covering almost three thousand years of history, written over twelve years, comprising some 520,000 Chinese characters, and written on about 21,000 bamboo slips (paper had not yet been invented)—Sima (in China, family names come first) used historical analogies to warn that allowing private citizens to "mint coins at will" would lead to manipulation of their value and related economic problems. Statesman Sang Hongyang defended the state's monopoly over coinage as follows: "If the currency system is unified under the emperor's control, the people will not serve two masters. If coin issues from the ruler, the people will have no doubts about whether it is genuine or not."

This Han–era debate was revived during the Song dynasty, although the government swept aside concerns about its paper currency monopoly by asserting that only it could ensure a stable ratio of value between metallic coin and paper currency.

Another element of controversy in the monetary debates of the time involved the widely varying views among Song intelligentsia of paper currency itself. Song statesman Ye Shi disparaged paper currency as "empty money" (*kongqian*) that, if issued imprudently, could spawn uncontrollable inflation, reduce incomes, and hamper economic activity. Like many others, he regarded bronze coin as the "mother currency," the primary currency, whereas iron coin and paper money were seen as the "child" or derivative currencies. Ye's contemporaries agreed with him that only metallic money could serve as a store of value, but argued paper currency could serve as a viable medium of exchange so long as the state regulated its quantity. Theorist Qiu Jun articulated the principle, which came to be widely accepted by the Song court, that the various functions of money were best served by multiple forms of money.

The Song court was eventually weakened by monetary instability arising from shortages of bronze coin and a proliferation of paper currency. These problems grew worse as the Song's conflicts with the Jurchen tribes from Manchuria escalated, increasing the need to finance military expenditures. The fears of Han–era Confucian scholars and Song–era intellectuals that government monopoly of currency issuance would inevitably lead to currency debasement, in turn causing economic chaos, came true. Indeed, the consequences extended beyond the economy, with the Song losing political control over their domain as well.

The Song were forced to abandon much of the North China heartland and take refuge in South China. The Song dynasty ended with the ascent of Kublai Khan, the fifth Great Khan of the Mongol empire and the grandson of Genghis Khan, who had founded that empire. After Kublai's conquest of the southern remnants of the Song dynasty, he became the emperor of China and the founder of the Yuan dynasty.

THE WORLD'S FIRST FIAT CURRENCY

It was during the reign of Kublai in the thirteenth century that Marco Polo visited China (Figure 1.1) and discovered a new type of

Figure 1.1 Marco Polo at the court of Kublai Khan, portrait by Angus McBride.
Credit: Private Collection, Bridgeman Images

alchemy—one even better than turning base metals into gold. He learned, to his wonderment, of money that could be created with paper and without being backed by stores of precious metals. This alchemy took place in Kanbalu, also known as Khanbaliq, the capital of the Yuan dynasty—now known as Beijing. In the chronicles of his travels, Marco Polo wrote:

> In this city of Kanbalu is the mint of the grand khan, who may truly be said to possess the secret of the alchemists, as he has the art of producing money. . . . The coinage of this paper money is authenticated with as much form and ceremony as if it were actually of pure gold or silver. . . . and the act of counterfeiting it is punished as a capital offence. When thus coined in large quantities, this paper currency is circulated in every part of the grand khan's dominions; nor dares any person, at the peril of his life, refuse to accept it in payment. All his subjects receive it without hesitation, because, wherever their business may call them, they can dispose of it again in the purchase of merchandise they may have occasion for. . . . All his majesty's armies are paid with this currency, which is to them of the same value as if it were gold or silver. Upon these grounds, it may certainly be affirmed that the grand khan has a more extensive command of treasure than any other sovereign in the universe.

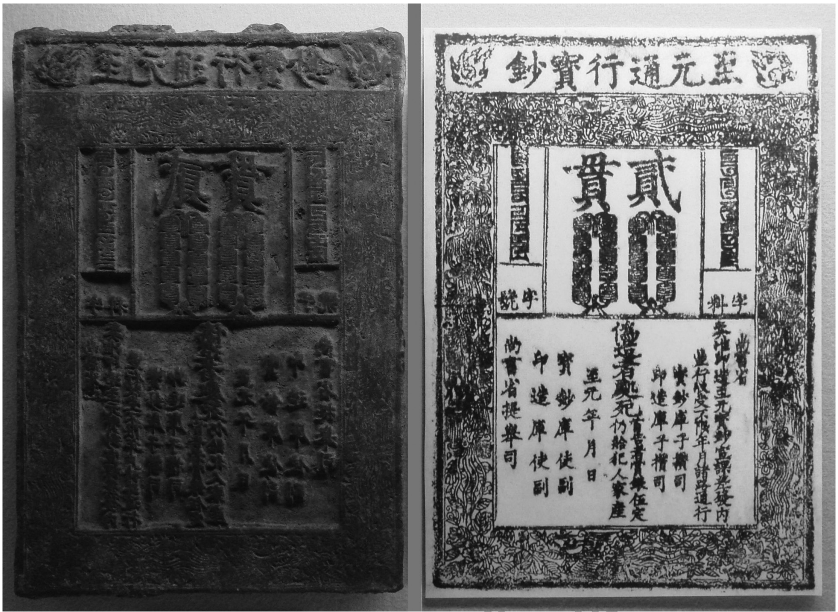

Figure 1.2 Yuan dynasty currency note and its printing plate.
The name of this currency note is *Zhi Yuan Tong Xing Bao Chao*. The text in the bottom panel indicates that the note can be circulated in various provinces and has no expiration date; counterfeiters will be put to death; those who report counterfeiters to the authorities will be awarded 5 *zhen* silver, along with the family property of the counterfeiters.
Credit: PHGCOM, obtained through Creative Commons

The money that Marco Polo saw was printed on paper made from the bark of mulberry trees. The Yuan government used woodblocks and, later, bronze plates to print the paper money, which took the form of a variety of banknotes called *Chao* (Figure 1.2).

Although paper money had been used during the Song dynasty, Kublai can be credited with two major (and closely related) innovations: fiat money and legal tender. Like modern national currencies, the currency issued by Kublai's government was not backed by any precious metals or commodities, so it had no intrinsic value but was still widely accepted as a medium of exchange. It was thus a fiat currency, issued by government decree and backed only by the government that issued it. This innovation was born of necessity, because copper was too scarce to form a metal currency in an era of expanding trade. Bronze, an alloy consisting mainly of copper, was also needed in large quantities to make statues and other objects, leaving it in short supply.

Kublai also turned his currency into legal tender, which meant that it was an official medium of payment recognized by law and had to be accepted by a lender as repayment for a debt or any similar financial obligation. Under Kublai's regime, the paper currency's wide acceptance was backed by his reputation, although the threat of bodily harm for those not willing to accept it probably helped as well.

After Kublai's death in 1294, his empire gradually lost both stability and prosperity. Reckless issuance of large quantities of paper money undermined confidence in the currency and its circulation stagnated, leading to a restoration of barter in commercial exchange. A series of devastating natural disasters—epidemics, droughts, and floods—caused millions to die and left most people outside the imperial order in poverty. Economic mismanagement and rising rebellions only exacerbated the crisis, precipitating the collapse of the Yuan dynasty.

In his 1885 volume, *A History of Money in Ancient Countries*, prolific U.S. historian Alexander Del Mar (who was also the first director of the Bureau of Statistics in the U.S. Department of the Treasury) argued that the lack of monetary discipline was a key factor in the downfall of the Yuan dynasty:

> Population and trade had greatly increased, but the emissions of paper notes were suffered to largely outrun both, and the inevitable consequence was depreciation. All the beneficial effects of a currency which is allowed to expand with the growth of population and trade were now turned into those evil effects that flow from a currency emitted in excess of such growth. . . .
>
> Excessive and too rapid augmentation of the currency, resulted in an entire subversion of the old order of society. The best families in the empire were ruined, a new set of men came into the control of public affairs, and the country became the scene of internecine warfare and confusion.

The Ming dynasty (1368–1644) followed the Yuan dynasty and issued notes from 1368 until about the middle of the fifteenth century (Figure 1.3). Coins and paper notes were used side by side during this period, with paper notes dominating. However, indiscriminate printing of paper money caused rapid inflation, eroding the purchasing power

Figure 1.3 Ming dynasty currency note.
The upper line shows the name of the banknote (*Da Ming Tong Xing Bao Chao*). The text in the middle block indicates that the note can be circulated in various provinces. The text in the bottom block states that counterfeiters of the note will be put to death; and that those who report counterfeiters to the authorities will be awarded 250 *tael* silver, along with the family property of the counterfeiters.

Credit: From *The Book of Ser Marco Polo: The Venetian, Concerning Kingdoms and Marvels of the East*, translated and edited by Sir Henry Yule (London: John Murray, 1903). Private Collection © Look and Learn, Bridgeman Images of the notes as merchants grew reluctant to accept them. Eventually, paper currency was abolished, with silver and coins becoming the only forms of payment acceptable for commercial transactions.

The Qing dynasty (1644–1911) resisted issuing paper money until 1853, when the government needed to raise substantial revenue to finance its efforts to suppress the Tai Ping Rebellion. This civil war lasted from 1850 to 1864 and ranks as one of the bloodiest in human history, with an estimated 20 million casualties. The currency notes issued by the Qing government during this period were backed by silver and bronze.

After the second Opium War (1856–1860), which China lost to Britain and France, various foreign governments set up banks in China's trading ports and issued their own banknotes. The Qing court initially did not resist these developments, but soon came to recognize that this represented, in effect, continued aggression by foreign powers. The nation's rights and interests were falling into the hands of foreigners, whose money was becoming the basis of commerce.

The eleventh emperor of the Qing dynasty, Guang Xu, eventually wrested monetary control from foreign governments. He approved the creation of a bank to be run by businessmen in Shanghai. The Tong Shang Bank (Commercial Bank of China) was established in 1897 and, the next year, it became the first modern bank to issue paper currency in China. The government then set up other banks as well to issue official banknotes, which made it difficult to maintain the stability of the monetary system while banknotes in various forms were being circulated simultaneously. To address this problem, in 1905 the Qing government set up a national bank in Beijing to regulate state finances and the monetary system more effectively. The Ta-Ching Government Bank was given the privilege of minting money, issuing paper money, and managing state funds. This ushered in some monetary stability, but only for a brief period.

A CURRENCY WAR

The 1911 revolution that swept the Qing dynasty out of power was followed by an extended period of turbulence in China's political and economic evolution. Provincial governments and financial institutions issued various paper currencies, with most of these enjoying, at best, limited acceptance.

In 1912, the Chinese Nationalist Party or Kuomintang, which had originally been conceived as a revolutionary league bent on overthrowing the monarchy, became a viable political party under the leadership of Sun Yat-sen. After Sun's death in 1925, Chiang Kai-shek took over the party's reins. By 1928, Chiang had succeeded in overpowering most regional warlords as well as the Communist Party, bringing most of China under the control of his government. In November 1928, the Kuomintang government established the Central Bank of China, with its headquarters in Shanghai, as the official national central bank. The bank was authorized to issue coins and banknotes, handle foreign exchange transactions, and issue government bonds. Various other private and government-owned banks' currencies circulated side by side. These currencies were backed by reserves of silver, i.e., the currency notes could be exchanged for silver at the banks that issued them. As worldwide silver prices rose in the latter half of 1934, legal and illegal exports of silver from China began to drain the reserves of banks. By early 1935, Chinese banks' silver reserves had shrunk markedly, depleting the national monetary base and pushing the country's financial markets to the brink of collapse.

In November 1935, the Kuomintang government implemented the "Fa Bi Reform," taking China off the silver standard and decreeing that only three banks could issue *Fa Bi* (legal tender). The Central Bank of China, the Bank of China, and the Bank of Communications were initially authorized to issue Fa Bi banknotes (Figure 1.4). The Bank of Agriculture, also known as the Farmers Bank, was subsequently added to this list, bringing to four the number of banks authorized to issue legal currency. To promote confidence in the currency, it was, in principle, made fully exchangeable into British pound sterling, which at the time was the dominant global reserve currency, as well as the U.S. dollar.

Meanwhile, Japan, which had invaded and occupied Manchuria in 1931, began to annex larger expanses of Chinese territory. The Japanese were eager to establish currency control as a tool for achieving economic dominance. In 1938, they set up the China

Figure 1.4 Kuomintang Fa Bi banknote.
Credit: Banknote printed by Waterlow & Sons Limited, London, for Central Bank of China. Scanned by Faka Handa, obtained through Creative Commons

Reserve Bank, which began to issue its own currency to compete with Fa Bi. In fact, some historians refer to the period of 1938 to 1941, when China Reserve Bank notes and Fa Bi were in direct competition, as a "currency war."

The convertibility of the Kuomintang's Fa Bi made them more widely accepted, giving them an edge over Reserve Bank notes. To counter this, Japan decreed that Fa Bi had to be exchanged for Reserve Bank notes in the territories it controlled; it then converted the Fa Bi it procured in this process into hard currencies through foreign banks operating in Shanghai. Facing possible erosion of the value of Fa Bi as the Shanghai banks started limiting such conversion to protect their hard currency reserves, the

Kuomintang government initially provided foreign exchange to the Shanghai banks to support its currency. This quickly drained the government's pound sterling and dollar reserves, weakening confidence in the currency. The Fa Bi was supported for a while with help from the British and U.S. governments, but the currency would not remain viable for long.

By 1941, the currency war between the Kuomintang government and the proxy government established in Nanjing by the Japanese, with Wang Jingwei as its head, had turned into an outright war of terror. In January 1941, the Nanjing authorities established the Central Reserve Bank, with a branch in Shanghai. This bank started issuing its own notes to compete with the Kuomintang's Fa Bi. Many Shanghai bankers were forced to cooperate with the Central Reserve Bank. Zhu Baoquan, a leading Shanghai banker, was asked to serve on its board. When he refused, he was kidnapped by agents of Wang's Nanjing government and held in captivity for ten days before he relented. A month later, Kuomintang agents attacked the Central Reserve Bank branch on the Bund in Shanghai with guns and homemade bombs, followed by assassination attempts against its officials (one of which was successful). The Nanjing government answered terror with terror, attacking pro-Kuomintang banks in Shanghai with hand grenades and executing some bank employees. In another incident, a bank building was dynamited, killing seven and wounding many more. This round was initially won by the Kuomintang, but it would prove to be a fleeting and Pyrrhic victory.

As the military conflict with Japan intensified, the Kuomintang government began printing money indiscriminately to finance military expenditures. The supply of Fa Bi shot up from about 1,400 million yuan in 1937 to 660,000 billion yuan in 1948. Needless to say, prices skyrocketed, multiplying—by one estimate—about 35 million times over this period, rendering Fa Bi worthless.

To counter the threat to the national economy of galloping inflation, the Kuomintang government issued gold yuan notes in 1948, ostensibly backed by gold. But, clearly, it had not learned much about monetary discipline. Within 10 months, there were 650,000 times more gold yuan notes in circulation, which could obviously not have been fully backed by the government's gold reserves. Despite government promises that the maximum denomination of these notes would be 100 yuan, denominations of 1 million gold yuan were in circulation within one year. Prices increased more than a millionfold during this period. Meanwhile, other provinces that had resisted the Japanese onslaught had begun issuing their own currencies called *Kangbi* (resistance notes) or *Bianbi* (border area notes). The end of Japanese influence, following Japan's surrender to Allied forces in 1945, did not unify these banknotes because by that time the revolutionary war between Chiang Kai-shek's Nationalists and the Communists was heating up.

THE RENMINBI APPEARS

A truce between the Nationalists and the Communists following Japan's surrender proved tenuous and brief, giving way to an all-out civil war that erupted in 1946. With stronger grassroots support and superior military organization, the Communists gradually began to gain the upper hand. As Communist control spread across China, a new currency, issued in banknote form only and denominated in yuan, was introduced. By the fall of 1948, most "liberated" areas had been unified under the control of Communist forces. On December 1, 1948, nearly one year before the People's Republic of China formally came into existence, the Communist Party of China (CPC) created a new institution called the People's Bank of China (PBC) to manage the country's monetary policy. Thus, the PBC became the country's central bank, similar to the Federal Reserve in the U.S. The PBC was formed through a merger of three banks: Beihai Bank, North China Bank (Huabei Bank), and Northwest China (Xibei) Peasant Bank. Its main location was initially in ShiJiaZhuang, the capital of Hebei Province, where Huabei Bank had been located.

Soon after its inception, the PBC began issuing its own currency, which was given the name *renminbi*—meaning, "the people's money." This designation was in keeping with the Communist fervor of the time, when everything was supposed to belong to "the people." At the same time, the PBC prohibited the circulation of foreign currencies, gold, and silver. It also swept away various banknotes issued during the Kuomintang government that remained in circulation, and called in currencies issued by other provinces. Upon the founding of the People's Republic of China in October 1949, the renminbi, henceforth generally abbreviated as "RMB" in this book, became China's sole legal currency.

There was a great clamor among the Communist Party leadership to see the portrait of Mao Zedong, regarded as the founding father of modern China, appear on the very first series of RMB banknotes issued by the PBC around early 1949. Mao rejected this. He is reported to have said, "Renminbi belongs to the entire nation. I am the President of the Communist Party, instead of the government, so it is inappropriate to print my portrait on the banknote." It was only in October 1949, upon the proclamation of the establishment of the People's Republic of China, that Mao became the

Figure 1.5 Chairman Mao Zedong announces the establishment of the People's Republic of China at Tiananmen Square, Beijing, on October 1, 1949.
Dong Biwu is on his left (with hands clasped in front).
Credit: Pictures from History, Bridgeman Images

President of the Central People's Government (his formal title was changed to President of the People's Republic of China in 1954).

Dong Biwu was one of earliest leaders of the Communist Party and another of the founders of modern China (Figure 1.5). Like many of his comrades in the CPC leadership, including Mao himself, Dong had a keen interest in calligraphy and was considered to be highly skilled in this art. As the minister of finance and a skilled calligrapher, it was his responsibility to inscribe the characters for "People's Bank of China," which would appear at the top of all RMB currency notes. It is said he viewed his task as such a solemn and important one that he showered and put on new clothes before inscribing the six Chinese characters.

Mao was said to have been greatly excited when the first series of RMB was issued in 1948. He said "the Chinese people finally have their own army, their own regime, their own land, and now their own bank and currency! This is how a Republic mastered by the people should be."

Soon after the currency was issued, the *Renmin Daily* (the *People's Daily*) carried a front-page story emphasizing that the new currency represented a clean break from the Kuomintang regime:

> The unification of the currency this time is completely different from Jiang Jieshi's [Chiang Kai-shek's] currency reform. Jiang's goal was to inflate the currency so that the government could deprive its people, while the unification this time is to make our monetary system easier and more efficient, to promote the exchange of goods and materials, and to stimulate economic development. As a result, it contributes to the prosperity of the entire society. . . . Furthermore, holding the new renminbi, any person, at any time, in any market, can buy what they need.

There is a story that Deng Xiaoping, who was a key Party functionary at the time and would go on to become the paramount leader of China, went out for dinner with his colleagues Chen Yi and Luo Gengmo, the comrade in charge of the finance sector in Shanghai. They handed the new RMB to the vendor from whom they were purchasing food and asked, "Are you willing to receive this new currency?" The vendor was reportedly happy and responded: "I'm more than willing to receive this! Everyone wants this currency! Unlike the gold yuan note issued by Kuomintang, which could only be used as toilet paper, this currency has value so we can buy various goods with it." Such stories, whether apocryphal or not, were meant to instill confidence in the new currency and emphasize that the new government would not inflate away its value as so many regimes had done in the past.

When the People's Republic of China was formally established in 1949, Nan Hanchen, the governor of the PBC, is reported to have asked Mao again in person for his permission to include his portrait on RMB notes. Mao refused once more, apparently for two reasons: the first was that, throughout his life, Mao hated to touch money; second, Mao was firmly opposed to personality cults (which might strike contemporary readers, who are accustomed to seeing seemingly ubiquitous portraits of Mao in public spaces, as ironic), calling them "poisonous ideological survivals of the old society," and he stood firm in his commitment to collective leadership.

THE FACE OF THE RENMINBI

The first series of the currency consisted of denominations from 1 yuan up to 50,000 yuan. These large denominations became increasingly cumbersome for day-to-day use. In 1955, the new yuan, which was officially known as the RMB yuan, was introduced at the rate of 10,000 old yuan = 1 new yuan. This remains China's currency to this day. At that time, smaller denominations of the currency also appeared. One yuan is divided into 10 *jiao* and 1 jiao is in turn divided into 10 *fen*. The smallest denomination of the yuan is 1 fen, which may be considered the Chinese equivalent of the penny.

This second series of the currency consisted of denominations from 1 fen up to 10 yuan. The banknotes displayed the words "People's Bank of China" on the front of each note, and the denomination of the note in the Mongolian, Tibetan, and Uighur languages on the back. The Zhuang language was added to the third

Figure 1.6 Fourth series of RMB banknotes, first issued in 1987.

series that was issued, starting in 1962. This tradition of showing the denomination on the front of the note in Mandarin and on the back of the note in four other languages has continued to this day.

A fourth series of banknotes was first introduced in 1987. This set of currency notes displayed a variety of images. The 5 yuan note showed pictures of minorities, including a Tibetan woman and a Muslim man. The 50 yuan note featured images of an intellectual, a farmer, and an industrial worker. The 100 yuan note featured the profiles of four former Chinese leaders: Mao Zedong (who died in 1976), Zhou Enlai, Liu Shaoqi, and Zhu De (Figure 1.6).

In October 1999, during the celebrations staged to commemorate the fiftieth anniversary of the People's Republic of China, the PBC issued the fifth series of banknotes. Then, as described in the

Figure 1.7 Fifth series of RMB banknotes, first issued in 1999.
Credit: DnDavis

journal *Old Friend* (*Lao You*), "the Chinese people's long-lasting dream of putting Mao's portrait on the banknotes finally came true." Now every yuan note, whatever the denomination, bears the iconic full-face image of Mao Zedong.

An official from the Beijing bureau of printing indicated that, when the fifth series of banknotes was being designed, the portraits of historical figures such as Confucius, Li Bai, Yue Fei, and Li Shizhen were considered for the front side of the notes. However, it was decided that displaying a familiar image on banknotes could discourage counterfeiting, and what better image to accomplish this than the widely-recognized one of Mao (Figure 1.7). As one Chinese journal reports:

> There was an experiment showing that even for educated people, it is hard to tell the difference between Hua Mountain, Huang Mountain, Tai Mountain, and Heng Mountain. There are still many illiterate people in China, and there is a large literacy discrepancy among the population. But everyone recognizes Mao. So if Mao's portrait is shown on the banknote, it is easier for people to detect counterfeit money.

A ROSE BY ANY OTHER NAME?

Today you will find people discussing Chinese currency not just on the financial pages, but also in other sections of your daily paper and on television news shows. And no doubt you've noticed that some people refer to the currency as renminbi whereas others refer to it as *yuan*. In the previous section, I used both terms in describing the evolution of China's currency.

Is there a difference? These terms are often used interchangeably but they do not mean quite the same thing. Renminbi, which, as noted before, literally translates as "the people's money," is the name of the currency. The yuan is the unit of account for quoting prices.

If you happen to be at the Hong Qiao pearl market in Beijing and find yourself ensnared by an aggressive salesperson on the second floor, you will be offered, in broken English, a "genuine" Coach handbag for just 1,000 yuan (roughly 160 U.S. dollars). If you tear yourself away and head for the pearl shops on the third floor, a favored shopping destination for foreigners, your eager vendor will quickly drop the price to 300 yuan—a special price "just for you." It is unlikely you will hear the word renminbi.

The case is similar with "pound sterling," which is the name of Britain's currency. You will not see "pound sterling" on any of the signs at Marks and Spencer in London. If you happen to stop at a pub in Yorkshire for a pint or a few, the bartender will give you a tab denominated in pounds rather than sterling.

To make things more interesting and even more confusing, some people are accustomed to writing Chinese currency amounts in this manner: "RMB 100 million yuan." This is rather like writing "$10 dollars"—redundant, but harmless. Moreover, to add yet another layer of complexity, in colloquial usage *kuai* is often used in place of *yuan*. Expressing an item's price using kuai would be like saying "This costs 10 bucks" (or "quid," if you were in London rather than New York City).

The confusion about the name of the currency stems in part from popular media, where several styles have evolved as a matter of custom. *The Wall Street Journal* and newswire services such as Bloomberg and Reuters almost always use the word *yuan* when referring to Chinese currency. Searching for the word *yuan* on the *Journal*'s website for the period January 1 to December 31, 2015, yields 2,285 items. A search for the word renminbi over the same period yields only 149 items.

I once asked two *Journal* reporters about this and was told that their style guru had decided: "'Yuan' is what people know and our first choice, though 'renminbi' isn't banned." Similarly, *Bloomberg News* tends to use the word *yuan*. When a *Bloomberg* reporter uses the word renminbi, the article generally notes "it is another name for the Chinese currency."

The New York Times style guide suggests punting on the issue altogether. "In passing references, the Chinese terms can often be avoided altogether. Simply refer to China's currency, and give quantities in dollar equivalents." But then the guide adds, "When the name is necessary, use renminbi. . . . Generally confine *yuan* to quotations or to articles with multiple references to different quantities of renminbi. . . . Such cases may require a brief explanation that yuan is a shorthand reference to China's currency."

So *Wall Street Journal* readers know the yuan and need to be reminded of what the RMB is. *New York Times* readers know the RMB and need to be reminded of what the yuan is. No doubt all of this says something about the readers of these newspapers.

The style guide of *The Economist* magazine, after explaining the difference between the two terms, leaves no ambiguity about what its reporters should use: "Renminbi, which means the people's currency, is the description of the yuan, as sterling is the description of the pound. Use yuan." The *Financial Times* favors the use of renminbi over yuan by a six-to-one ratio. But *Financial Times* reporters seem to believe its readers are sophisticated enough to be able to shift back and forth between the two terms without further explanation.

In this book, I take the pedantic middle road of using renminbi, which as I have noted is generally abbreviated to RMB, as the name of the currency, while nevertheless using *yuan* when the occasion demands it.

In contrast, the dollar is just "dollar." My Australian and Canadian friends will no doubt object strenuously, noting that there is the

U.S. dollar, and then there are the Australian and Canadian dollars. In fact, there are 34 independent countries whose currency is named the "dollar," ranging from the Belize dollar to the Trinidad dollar, plus at least another six countries, including Ecuador and Panama, that use the U.S. dollar as their official currency.

In this case, I will be parochial, generally using the term *dollar* to refer to the U.S. dollar while explicitly identifying other types of dollars with the relevant country name.

No other country uses renminbi or yuan as the name of its currency. The old versions of the Japanese *yen* and Korean *won* were cognates of the yuan. All three words mean "round" (or circle) and originally shared the same Chinese character. In modern form, the characters for the three currencies are now written differently. Interestingly, the currency symbol for the yen and the yuan is the same: ¥. Perhaps surprisingly, the word *yuan* did not originate in the Yuan dynasty. In fact, coins known as *yuan qian* ("round money") existed as early as the third to fifth centuries BC, predating the Yuan dynasty by some sixteen centuries.

We have traced the origins of Chinese paper currency back to the seventh century and followed it through to its latest incarnation, with most of the developments described so far being relevant primarily to the Chinese economy. Since 1999, when the latest series of RMB was issued, the more interesting aspect of the currency's evolution has been its rising prominence in global trade and finance. Before analyzing the currency's evolution over the past two decades, it is important that we understand several salient concepts. We therefore shift from history to economics in the next chapter.

To borrow Marco Polo's subtle segue at the end of one of the chapters in his book, "Let us now change the subject."