Transnational Circulation of Money: Silver, JMY and USD

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Outline of the Lecture

• The political economy of international currency
• Copper and silver in pre-colonial East Asia: the transnational circulation of precious metals
• Japanese Military Yen: colonial control and economic domination
• The Dollar hegemony: weakening but still dominant
• Reconsidering money circulation in East Asia
Political economy of international currency

• Main functions of money
  • Medium of exchange
  • Store of value
  • Unit of account

• Private and public functions of an international currency
  • Settling economic transactions vs. open market operation
  • Foreign assets vs. foreign exchange reserves
  • Denominating economic transactions vs. anchoring (national) currency values
Political economy of international currency

• Basic requirements of an International currency (IC)
  • Stable value (confidence): macroeconomic conditions of the issuing country
  • Adequate liquidity & convertibility: open and well developed financial market
  • Wide acceptability (credibility): worldwide network of transactions

• Political foundations of an international currency (IC)
  • IC-issuing country: extensive influences on international trade, finance, and development, consistent domestic monetary policy, and stable financial order
  • Adopting IC under coercion: colonies, subordinate states, etc.
  • Adopting IC by agreement: extensive economic and security links
Political economy of international currency

• Benefits of an international currency
  • Facilitating international trade and other economic exchanges
  • Seigniorage ‘paid’ to the IC-issuing country
  • Political symbolism and diplomatic influence
  • Important means of economic sanctions

• Potential cost of an international currency
  • The Triffin dilemma: international liquidity vs. trade balance
  • ‘Impossible trinity’: stable exchange rate (fixed exchange rate), free movement of capitals, and independent monetary policy
Copper and Silver in pre-colonial East Asia: the circulation of precious metals

- Traditional cash coins were in wide circulation in ancient China
  - Appeared in 400BCE, and in circulation until the early 20th century
  - Round shape with a round or square hole at the center
  - Usually made in copper or bronze, with additional iron, lead or zinc
- Similar cash coins also appeared in other East Asian countries
  - Korean mun, Japanese mon, Ryukyuan mon, and Vietnamese văn
Copper and Silver in pre-colonial East Asia: the circulation of precious metals

- Cash coins of the Song and early Ming China were exported to neighboring countries (esp., Jin, Japan, Ryukyu) and Southeast Asia
  - China’s huge economic size and active commercial policy made its coins valuable even for those lived outside China
  - Then, Jin and Japan were mostly barter-based economies; Imported Chinese coins were used in local transactions
  - The introduction of paper money in the Song dynasty made it less dependent on coinage, but the chronical inflation of paper money exacerbated the **shortage of copper cash** (‘coin famine’)
  - The Southern Song prohibited the export of its coinage, but private transactions and illegal smuggling continued
Copper and Silver in pre-colonial East Asia: the circulation of precious metals

• Sliver was the main medium of economic exchange in Ming China
  • In the Ming dynasty (1368-1644), inflated paper money and the lack of quality copper coins led to the monetary use of unminted sliver
  • The Ming authorities allowed tax collection through sliver payment after mid-15th century. However, the domestic silver production was inadequate
  • The high demand made sliver extremely over-valued in China

• The flow of sliver from Japan and the Spanish New World
  • Large quantity of silver was exported from the Spanish colonies of America (Mexico and Bolivia), via Spain-controlled Manila, to Ming in 1570s~1630s
  • Japan’s silver production rose sharply from the mid-16th century, and most was exported (directly and then indirectly) to China
Copper and Silver in pre-colonial East Asia: the circulation of precious metals

• The import of silver eased the high demand for silver in Ming China
  • The gold-silver ratio widened from 1:6 to 1:10 between 1568 and 1644
  • The silver-copper ratio reduced from 1:229 to 1:112 between 1577 and 1620s

• However, China’s (in Ming and Qing dynasties) dependence on the imports of silver left it vulnerable to external shocks
  • The Sino-Manila trade was in decline after 1630s, due partly to the fall of silver output in America and Philip IV of Spain’s regulation of New World trade
  • Tokugawa Japan prohibited Japanese ships from trading overseas in 1635, and banned the contact with Portugal after the ‘Christian rebellion’ in 1638
Japanese Military Yen: colonial control and economic domination

• Objectives of the Japanese Military Yen
  • In preparation of Japan’s military actions in East Asia
  • To avoid the (excessive) outflow of Japanese currencies
  • To pay for Japanese military’s local expenditure in occupied territories
  • To be circulated as the recognized currency in occupied territories

• The issuing of Japanese Military Yen
  • First Sino-Japanese War (1894); Russo-Japanese War (1904)
  • Battle of Tsingtao (1914); Siberian Intervention (1917)
  • Second Sino-Japanese War (1937); Pacific War (1941)
Japanese Military Yen: colonial control and economic domination

• Denomination and convertibility
  • Denominated in local currencies
  • Promise of convertibility to Japanese currency in the first two waves, but it was essentially abandoned in the third wave

• JMY’s limited convertibility and Japan’s economic domination
  • After the Russo-Japanese War, JMY were allowed to be converted to bills (bank notes) issued by the Yokohama Specie Bank, or to buy cotton products from the Mitsui & Co. These special measures greatly enhanced the two companies’ presence in the Japan-controlled ‘Machukuo’ (documentary)
  • Most JMY issued during the Second World War were never converted; they became useless after the war
The Dollar hegemony in East Asia: weakening but still dominant

• After the WWII, the US offered the essential resources of economic growth and development in East Asia
  • US aids to Japan, South Korea, Taiwan, and several Southeast Asian countries
  • The US market was open to allied countries

• US dollar as the most important reserve currency in East Asia
  • East Asian economies rank top in foreign reserve holdings (2019)
    • Japan (1), China (2), Hong Kong (9), Taiwan (11), India (13), Singapore (14), South Korea (17), Thailand (19), Philippines (33)
  • A very large proportion them denominated in US dollar
  • East Asian investment in the US treasury bonds \(\rightarrow\) reversed capital outflow resulting from the US trade deficit
East Asian Currencies against the US Dollar 2007~2017

base value—January 4, 2007

base value—January 4, 2011
The Dollar hegemony in East Asia: weakening but still dominant

• Most East Asian currencies anchor to the US dollar
  • HK dollar’s peg to the US dollar
  • East Asian currencies have similar EX movement against the US dollar

• US dollar dominates commercial transactions in East Asia

• However, the declining influences of the US dollar
  • Asian Financial Crisis (1997~98)
  • Global Financial Crisis (2008)

• Internationalization of major East Asian currencies still premature
  • The internationalization strategies of JPY and RMB
  • Japanese yen: a ‘safe haven’ currency?
  • Chinese RMB: successful IMF reform, but still lack of full convertibility
Reconsidering money circulation in East Asia

• Transnational circulation of money in the past
  • China’s exports of copper cash and imports of silver
  • Japan’s coercive measures of JMY
  • US dollar’s de facto dominance in East Asian regional economy

• As an open and integrated regional economy, the future of money circulation in East Asia remains uncertain
  • The internationalization strategies of RMB and JPY
  • ODAs and development assistance: Yen loans, BRI...
  • International trade and currency market