

CENTRAL INTELLIGENCE AGENCY
INFORMATION REPORT

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Banking and Credit

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1. [Redacted Box]
Industrial credit was easy to obtain, to prevent unemployment and to tighten government control over production.
2. Foreign exchange was under very strict control. The People's Government wanted and needed US and Sterling currencies. It encouraged the people to deposit their foreign currencies or to exchange them at the bank. The circulation or transactions of foreign currencies and exchange on the market was strictly prohibited. The People's Government procured foreign currency and exchange in several ways:
 - A. By export and import control.
 - B. By confiscation during the 5 anti and 3 anti periods of earlier times.
 - C. By compulsory purchasing of victory bonds.
 - D. By compulsory "voluntary" contributions.
 - E. Small quantities were absorbed from savings.

A few private industries or commercial houses were also encouraged and initiated, therefore allowing a small amount of foreign exchange to enter.

3. The People's Bank of China is the central bank. It is the government monetary agency which creates money. It issues paper money, a kind of managed money which is not convertible to either gold or foreign exchange. The People's Bank lends out, not what the people deposit, but the special money that it has created.

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- 25X1X [redacted] most deposits and loans are made through other government banks. Such as, the Bank of Communications (for individual loans), the Farmer's Bank (for agricultural loans) etc. These banks, when they do not have sufficient deposits to negotiate loans, may then borrow money from the People's Bank which controls all operations of all other banks either private or governmental.
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4. The Post Office, a tool of the government, also acts as a savings institution. In this roll it absorbs a large number of small savings, the use of which is designated by the government.
 5. All metal monies had been withdrawn from circulation by 1950. The only money in circulation at that time was paper money. How much currency is in circulation at the present is impossible to determine because the banks have been under central control for too short of a period.
 6. The government was forced to cause inflation in order to meet deficits in budgets. Prices increased slowly, but as a result very high. (The government possessed huge quantities of commodities of the first necessity, such as food, clothing and medicine). Later, every method possible was initiated, such as, issuance of bonds, compulsory contributions, confiscations, and heavy taxation.
 7. Foreign financial resources and operations are as follows: There are branches of government banks in the UK (the Bank of China in London); in India (the Bank of China, and the Bank of Communications in Calcutta); in Burma (the Bank of China in Rangoon); in Hong Kong (the Bank of China, the Bank of Communications, and the Farmer's Bank); in Singapore (the Bank of China); and in Macao (the Bank of China). Balance of payments in these countries were paid by foreign exchange. At certain times the government sold gold through its agents in order to procure foreign exchange. This was done mainly in Hong Kong and Macao. I do not know exactly how the balance of payment was made between the People's Government of China and Czechoslovakia. However, one can arrive at a fairly accurate decision by recalling the balance of payment with the USSR. Under the treaty of February 1950 between Red China and the USSR, the treaty stipulated that a credit of US \$300,000,000 be established and the balance of payments were to be made by sending commodities from China which were wanted and needed by the USSR, e.g. soya beans, tea, and minerals. Under this barter system, the stipulated US currency was only an accounting unit used for the evaluation of prices of commodities at world market prices.
 8. There existed a very small amount of UK currency or exchange on the China Mainland in 1950. The Chinese people held only US money and exchange notes, and Hong Kong dollars. The official rate of exchange in Shanghai in October 1949 was 4500 Yuan to US \$1.00. In January 1951 20,610 Yuan to US \$1.00, and in December 1952 23,430 Yuan to US \$1.00.
 9. Since everyone spied on everyone, an effective black market in monies was impossible in China. However, in Hong Kong and in Macao, there was a free market, where US money brought 10 to 20% premium.
 10. In Red China the official rate of foreign exchange was actually the bank's buying rate. People could not buy foreign exchange or currency from any bank without special permission from the Government. They could only sell their foreign exchange or currency to the government designated banks which in turn forwarded the accumulated foreign exchange and currency to the People's Bank.
 11. The bulk of Red Chinese transactions with non Soviet bloc states are conducted by agents in Hong Kong. Two government banks, the Bank of China and the Bank of Communications, handle the banking business of the two million population of which more than 90% are Chinese. In fact Hong Kong's business circles were largely influenced by these two banks. Macao, although a small Portuguese colony, is mainly Chinese and its importance to Red China is mainly as a port of transit and smuggling. Most of the gold and drugs smuggled into China are by way of Macao.

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