

# The Currency Conversion in Postwar Taiwan: Gold Standard from 1949 to 1950

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The discourses on Taiwanese successful currency reform in postwar period usually put emphasis on the actors of the U.S. economic aids. However, the objective of this research is to re-examine Taiwanese currency reform experiences from the vantage-point of the gold standard during 1949–50. When Kuomintang (KMT) government decided to undertake the currency conversion on June 15, 1949, it was unaided. The inflation was so severe that the KMT government must have used all the resources to finish the inflation immediately and to restore the public confidence in new currency as well as in the government itself. Under such circumstances, the KMT government established a full gold standard based on the gold reserve which the KMT government brought from mainland China in 1949. This research would like to investigate what role the gold standard played during the process of the currency conversion. Where this gold reserve was from? And how much the gold reserve possessed by the KMT government during this period of time?

Trying to answer these questions, the research investigates three sources of data: achieves of the KMT government in the period of mainland China, the official reports of the KMT government in Taiwan, and the statistics gathered from international organizations. Although the success of Taiwanese currency reform was mostly from the help of U.S. aids after 1951, but the gold standard, which was lasting for only 18 months, should be highly esteemed for its role of anti-inflation measures in postwar Taiwan.

**Keywords:** inflation, gold standard, gold reserve, currency conversion, the Gold Saving Deposit Program

**JEL Classification Numbers:** E31, N15, N45

## 1. Introduction

During the period 1949–50, Taiwan experienced an unprecedented hyperinflation. An attempt to stabilize prices was implemented by the Kuomintang (KMT) government in June 1949. According to the excellent study of Gail E. Makinen and G. Thomas Woodward (1989), the KMT government's policy consisted of using

its reserves of hard assets to cover much of its deficit, reducing money creation as a consequence at the very first time. As these reserves were being exhausted, it embarked on a program of borrowing from the public through high-yielding bank accounts. Finally, massive aid from the U.S. helped bringing the budget close to balance<sup>1)</sup>. But this study put its focus on the second step, the implement of the Preferential Interest Rate Deposit program. In addition, the role of the U.S. aid in the development of postwar Taiwan has been studied extensively in the literature. For example, the study of Samuel P. S. Ho (1978) provided description of the character of the U.S. aid program in the process of escaping from Taiwanese hyperinflation. However, the importance of the first step, the release of hard assets, did not appropriately discussed in any document. Therefore this research aims at the establishment of gold standard for building confidence from the public during 1949–50.

The autumn of 1948, the KMT planned to evacuate from the north part of Yangtze River to Taiwan after the KMT government lost the most important military battle (the Battle of Huaihai) against Chinese Communist Party (CCP) in Chinese Civil War. Chiang Kai-shek, the President of KMT, decided to transfer the Central Bank's gold bullion, silver coins, and foreign currency to Taiwan. Latter, these treasury assets, especially gold bullion as gold reserve, helped to reconstruct Taiwanese monetary system. However, on the recognized research about economics of postwar Taiwan, one would not find the article which examines the role of these treasury assets.

When the KMT put out its evacuation into practice, it was confronted with the inside and the outside difficulties. The inside difficulty was the social unrest caused by hyperinflation and 228 Incident. At the beginning, Taiwanese inflation was underway as a consequence of the release of pent-up demand suppressed during the war by price controls and rationing. But the ongoing inflation in mainland China extended to Taiwan immediately. The 228 Incident was an uprising in Taiwan that began on February 28, 1947 and was brutally repressed by the KMT government, resulting in about thirty-thousand civilians killed<sup>2)</sup>. Partly due to the corruption of the KMT administration on Taiwan, and the severe inflation in the early 1947, a dispute between a female cigarette vendor and an anti-smuggling officer triggered civil disorder and the open rebellion against the KMT government. The uprising was shortly put down by the KMT army, but tensions between the local Taiwanese and the mainlanders still had increased in the intervening after the 228 Incident<sup>3)</sup>. The outside difficulty was that Taiwan was still faced the menace of the CCP forces. Although the KMT concentrated all its resources on Taiwan, including a large num-

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<sup>1)</sup> Gail E. Makinen and G. Thomas Woodward (1989), pp. 104.

<sup>2)</sup> According to *Report of the 228 Incident* published by the Executive Yuan of Taiwan in 1992, 18,000–28,000 people were sacrificed due to the suppression of the KMT army.

<sup>3)</sup> An extensive study about this incident is found in Lai Tse-han, Romon H. Meyers, and Wei Wou (1991). It provides a detailed description of 228 Incident. This incident resulted in serious antagonism between mainlander and Taiwanese, and the confrontation still exists even now.

ber of gold reserve, and 670,000 soldiers, of whom 377,000 were combat-ready<sup>4</sup>), the morale on Taiwan was still declining. Moreover, and the situation near the Taiwan Strait was strained to the point where the CCP troops were gathered to cross to the strait.

Under such situation, the KMT government who once failed in currency conversion in mainland China understood that, it was a do-or-die decision to carry out drastic monetary system reform in Taiwan. Meanwhile, the U.S. government issued its White Paper in China, which put the blame for defeat of Chinese Civil War on the KMT government itself, and concluded that the KMT is a government of popular discontent, ineptness and rampant corruption. The U.S. stopped all its economic aids for the KMT government, and appraised that the CCP would seize Taiwan by the end of 1950. Therefore, the KMT had to reconstruct Taiwanese monetary system on its own. Without any international aids, the KMT could only rely on the treasury assets which were brought from mainland China as gold reserve, to carry out the redenomination of New Taiwan Dollar (NT\$), and it succeed this time.

Although these treasury assets played an important part in the reforms of Taiwanese monetary system, there was no thesis discussing it. The reason why these assets were ignored was that the KMT government did not open the accounts of these assets to public by now. More important of all, the era of 1949–50 was a history of the KMT failure. This field of research was a taboo while the whole Taiwan was under martial law. Fortunately, the KMT left lots of official documents in mainland China while it withdrew to Taiwan hurry-scurry. These official documents would provide key to the solution of this difficult problem. In addition to these official documents, the KMT government reports and International Financial Statistics also could help us to solve this riddle.

## 2. Historical Background

The gold standard is a monetary system in which the standard economic unit of account is a fixed weight of gold. When several nations are using such a fixed unit of account, the rates of exchange among national currencies effectively become fixed. The gold standard can also be viewed as a monetary system in which changes in the supply and demand of gold determine the value of goods and services in relation to their supply and demand. The three basic features of a gold standard regime are (1) inter-convertibility between domestic money and gold at a fixed official price, (2) freedom for citizens to import and export gold, and (3) a set of rules relating the quantity of money in circulation in international gold standard<sup>5</sup>). The first country used the adoption of the gold standard was England. In 1844, the Bank Charter Act established that Bank of England Notes, fully backed by gold, were the legal standard. According to the strict interpretation of the gold standard, this 1844 act marked the establishment of a full gold standard for British money.

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<sup>4</sup>) Jay Taylor (2000) pp. 196.

<sup>5</sup>) Barry Eichengreen (1985) pp. 5–6.

Following with the establishment of gold standard in England, Western countries went on to a strict gold standard in succession, and the international gold standard was formed in the late 19th century.

While the Japanese colonialism brought to Taiwan after the first Sino-Japanese war in 1895, a number of profound changes led to far-reaching consequences. One of the important changes was the reform of Taiwanese monetary system that made an exit of commodity money, and an appearance of legal tender. Suffering considerable alteration, this reform controlled by Japanese who had adopted gold standard, was took the adoption of gold standard in Taiwan eventually. This was the first gold standard in Taiwanese monetary history which was widely known. After a half of a century, the second gold standard was established by the KMT government in 1949 but unknown to everyone.

According to Potsdam Conference in 1945, Taiwan was separated from Japan, and returned to China as a province after Japanese capitulation. At the same time, Taiwanese trading partner was no longer Japan. Taiwan began to export its sugar and rice to China, and import textiles and industrial goods from China. However, the notes issued by the Bank of Taiwan (Taiwan Yen) remained circulation, and it was not annexed to Chinese Nationalist Yuan used in mainland China immediately. Due to a hyperinflation had been then in progress in mainland China, the situation of Taiwan was strict, but not as critical as in mainland China. The price control of wartime in Taiwan was cancelled, and large quantities of agricultural products like sugar and rice were as munitions to export to mainland China where the civil war had just begun. In the other hand, the inflation in Taiwan was getting worse. Moreover, until the KMT took over the Bank of Taiwan in October 1945, the total issuance of Japanese Taiwan Yen increased from 1.4 billion to 2.8 billion. It accelerated the speed of inflation in Taiwan. In September 1946, in order to exclude the enemy's banknotes, Taiwan Yen, and to slow down the speed of inflation, the KMT government determined to issue Taiwan Dollar (also known as Taiwan Nationalist Yuan or TWN), replacing the Japanese Taiwan Yen at an exchange rate of one to one. By the adjustable exchange rates between Taiwan and China, the TWN was independent from the Chinese National Currency (CNC) used on mainland China, since it had been tied to the yen and therefore had depreciated at a slower rate than the CNC<sup>6</sup>). This was the first currency conversion in postwar Taiwan.

However, the 40% specie reserve of TWN was based on CNC, which had been in galloping inflation, thus the effort to isolate Taiwan from the ongoing inflation area was completely useless from the beginning<sup>7</sup>). In contrary, the TWN was deeply influenced by the hyperinflation in mainland China (Table 1). To provide more

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<sup>6</sup>) Comparing the official rate and the inflation rate between the TWN and the CNC in 1946 (see Table 1 and Table 2), we could find that the inflation rate of the CNC was double than that of TWN, while the official rate was still fixed. Therefore, in fact the TWN was depreciated about 50% at that time. See Liu Jin-ching (1975) pp. 49–50.

<sup>7</sup>) The issue reserve of Taiwan Nationalist Yuan was prescribed in five parts: 40% of CNC, warrants of the Taiwan Sugar Company, short-term bills, government bonds and the certificate of investment. See The Historical Research Commission of Taiwan Province (ed.) (1993) pp. 154–155.

**Table 1** Retail price index for Taipei and Shanghai

	1945	1946		1947		1948	
	Taipei	Taipei	Shanghai	Taipei	Shanghai	Taipei	Shanghai
Jan.		100	100	100	100	100	100
Feb.		124	164	161	146	117	143
March		153	233	199	151	137	232
April		175	231	196	175	145	268
May		200	263	211	255	148	386
June		204	287	266	294	153	694
July		215	308	245	357	189	2044
Aug.	100	221	323	267	382	234	3590
Sept.	94	212	388	310	488	283	100
Oct.	104	223	456	440	747	623	112
Nov.	109	228	454	546	827	1246	1291
Dec.	130	249	504	608	1025	1141	1819

1. The index of Taipei based on data compiled by *Taiwan Financial Annual Report*.
2. The index of Shanghai based on data compiled by the Economic Research Department of the Central Bank of China.
3. Round decimal to integer places.
4. Due to the Currency Conversion on 19 August, 1948, the index in September 1948 for Shanghai is 100.
5. The 1948's price index for Shanghai is a wholesale price index.

munitions for the KMT army in civil war, the Bank of Taiwan which was under the KMT administration had not kept accurate records of the total issuance. The Bank of Taiwan printed more notes than it was legally allowed<sup>8)</sup>. By the shortage of daily essentials and the increasing of the issue amount, the inflation was ignited into hyperinflation in the end of 1947. As inflation worsened, the government issued banknotes at higher and higher denominations (Promissory Note of the Bank of Taiwan, abbreviated P/N of BOT), up to one million yuan, to handle the inflation on the island (see Table 3).

While the Taiwan Dollars had been superseded in the middle of 1949, the note issue grew to 326 times and the wholesale price index of Taipei raised 655 times than it was first issued in 1946. The KMT government recognized that counter-inflation measures must be taken immediately.

<sup>8)</sup> When the Bank of Taiwan was allowed to issue TWN in May 1946, the issue limit was 3 billion. One year after, the issue limit was expanded to 18 billion, and grew to 200 billion in the end of 1948. *Ibid.*, pp. 156.

**Table 2** The exchange rate of TWN, CNC and Gold Yuan

Period	Official Rate Based on TWN	Times of Adjustment	Period	Official Rate Based on GY	Times of Adjustment
1945. 10. 25	30	Fixed Rate	1948. 8. 23	1835	Fixed Rate
1946. 8. 20	40		11. 1	1000	Flexible
	9. 23				Adjustment
1947. 4. 24	40		11. 11	600	
	5. 16		11. 26	370	
	6. 2		12. 30	222	6
	7. 3		1949. 1. 31	80	10
	9. 1		2. 25	14	16
	11. 22		3. 31	3	9
	12. 24		4. 11	1	4
1948. 1. 13	92	Flexible Adjustment	4. 30	0.05	10
			5. 27	0.0005	7
	2. 28	16			
	3. 25	10			
	4. 27	7			
	5. 20	11			
	6. 28	15			
	7. 31	11			
	8. 18	5			

1. Based on data compiled by *Bank of Taiwan Quarterly*, 1947–49.
2. The times of adjustment are total number of times between two periods.
3. After 15 June, 1949, due to the conversion of NT\$, the exchange rate system between China and Taiwan had been abolished.

**Table 3** Taiwan dollar note issue (million)

Period	Taiwan Nationalist Yuan	P/N of BOT
End of 1946	5,330	—
End of 1947	17,133	—
End of 1948	142,040	85,838
14 June, 1949	527,033	1,213,580

1. Based on statistics compiled by *Bank of Taiwan Quarterly*, 1947–50.

### 3. The Establishment of Gold Standard

On June 15, 1949, the KMT government undertook the second currency conversion in postwar Taiwan. Its major provisions were

- (1) The Bank of Taiwan issued a unit of account known NT\$ to replace the TWN.
- (2) One NT\$ was to be exchanged for 40,000 TWN.
- (3) A ceiling of NT\$200 million was placed on issuance of new notes with the reserves of the Bank of Taiwan sufficient to ensure a 100 percent gold, silver, and commodity cover.

- (4) The NT\$ was made partially convertible in that foreign exchange was available for a variety of external payments at the rate of NT\$5 for US\$1.
- (5) A Gold Savings Deposit Program was created allowing individuals to deposit NT\$ in accounts paying gold at maturity.

According to the experience of Western Countries, a successful stabilization of currency system required balanced budgets, and an independent central bank. The former reduced the pressure on monetary authorities to provide the wherewithal to finance the deficit, and the latter could refuse the government from requesting for credits. Unfortunately for Taiwan, in order to resist the threat from CCP forces, the defense budget accounted for more than 80% of the national budget, the fiscal and monetary measures mentioned above were both impossible. Moreover, the U.S. economic aids for the KMT government had been frozen since the military situation went against the KMT<sup>9)</sup>. Hence, the second currency conversion in postwar Taiwan consisted mostly of trying to restore public confidence in a new currency – New Taiwan Dollar – by making it completely convertible into gold.

The Gold Saving Deposit Program was the core of this reform in the beginning. It was used by the public as a means of acquiring gold by withdrawing deposits to restore public confidence on one hand, and covered government deficits on the other. The main point of the program was as followed.

- (1) Each individual resident could open a deposit in gold or in NT\$ with gold price (1 market tael, abbreviated MT=31.25 grams=NT\$280).
- (2) One could chose an ordinary account or a fixed account, and the sum of first deposit must be above 0.1 MT (3.125 grams) or NT\$28. The annual interest of an ordinary account was 1%, a one-month fixed account was 2%, and the two-month account was 3% respectively.
- (3) An individual withdrawal was limited in 50 MT a year, provided that in the case of NT\$ deposit, ten-day period was necessary.

Although the program provided that a deposit in gold was acceptable, almost all the people opened deposits in NT\$. Furthermore, the official price of gold was 1 MT to NT\$280, but market price of gold was worth than NT\$300. Therefore, the speculative deposits and withdrawals occurred frequently. The program was supported to encourage people to save money, but after all it became a mechanism that government sold its gold to public in official price. On 14 January, 1950, under the guidance of the KMT government and the cooperation of big four gold stores, the Bank of Taiwan established “The Monetary Equilibrium Fund” to sell gold and foreign currency in open markets.

According to the three basic features of gold standard mentioned above, Taiwan was not appropriated for a complete gold standard. First, one could convert NT\$

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<sup>9)</sup> The China Aid Act was passed by US Congress in January 1948, authorizing grants of US\$275 million for the purchase of commodities for China over a twelve-month period. But with the disadvantage of the KMT in civil war, US decided to suspend the economic aid, and actually, only US\$162 million was received.

to gold at a fixed official rate, but the total amount was limited to 50 MT in one year. Second, one could import gold, but the export was not allowed<sup>10)</sup>. But even so, the monetary system in Taiwan during 1949–1950 still could be regarded as a gold standard by the achievement of inter-convertibility between NT\$ and gold at a fixed official price, the most important feature of a gold standard.

Although gold standard was established for the stabilization of inflation, inflation did not come to an immediate end. But, it did slow dramatically. From the middle of June through December 1949, the Taipei wholesale price index rose by 82% in contrast with a 729% increase for the first five months<sup>11)</sup>. In March 1950, the stabilization effort was augmented by the Preferential Interest Rate Deposit (or PIR) program, a system of time deposit at the Bank of Taiwan and other commercial banks paying positive real rates of interest<sup>12)</sup>. By the enforcement of PIR, the KMT government could issue an “extra-limited issue” of NT\$50 million to solve the financial difficulties without causing inflation<sup>13)</sup>.

However, the outbreak of Korea War in June 1950 resulted in the rising of international gold price, and the gold price in Taiwan also rose to NT\$410 per MT in October 1950. Because the markup of gold price in Taiwan was lower than it was in Hong Kong, the profit margin was accruing to Taiwanese from the sale of gold to Hong Kong. In fear of the outflow of gold, the Gold Saving Deposit Program was abolished in December 1950. With the abolition of the program, inter-convertibility between NT\$ and gold were ended, and the gold standard in postwar Taiwan came to the end, too.

The period of gold standard during the middle of 1949 to the end of 1950, the amount of gold releasing from the KMT government was about 1,998,000 MT, and it was equivalent to NT\$560 million in official price<sup>14)</sup>. This number was 2.3 times than the issue amount which was limited in NT\$200 million during the period of 1950. It was a great help to maintain the issue limit of bank notes under social insecurity at that time. Selling gold helped to reduce the pressure from an additional issue for covering deficits, and to bolster confidence in NT\$, but it could not persist for long. Actually, the KMT government had run out its gold in the autumn of 1950, and purchased 50 thousand ounces of gold from Federal Reserve Bank<sup>15)</sup>.

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<sup>10)</sup> According to the New Taiwan Dollars Act, one could only carry 2 MT of gold, 20 MT of silver and \$200 with oneself when going abroad.

<sup>11)</sup> Gail E. Makinen and G. Thomas Woodward (1989), p. 93.

<sup>12)</sup> The accounts paid interest at the rate of 7% per month (or 125.22% per year). Yuan Ying-sheng (1998), pp. 187.

<sup>13)</sup> The extra-limited issue was covered 100% by a commodity reserve, and the outstanding note issue still had a gold reserve of 80%.

<sup>14)</sup> Shu Po-yuan (1967) pp. 11. In the early 1950's, Shu acted as the president of the Bank of Taiwan, and administered the postwar Taiwan monetary system reform. This successful experience was highly estimated, and he was selected as the president of the Taiwan Central Bank afterwards. That is why the manuscript which he wrote is treated as an official document of the government in Taiwan.

<sup>15)</sup> Except for gold, the KMT government also released its foreign exchange, the US dollars, to reduce the pressure of monetary expansion. Until the end of 1951, the KMT government finally ran out of its foreign exchange. The amount of US dollars which the KMT government released during 1949–1950 was about \$10.6 million. See Yuan Ying-sheng (1998) pp. 186.



For the KMT government, the successful monetary reform had to get the confidence not only from the domestic, but also from the abroad. Theoretically, with the establishment of gold standard, the discredited NT\$ could be cleared against dollar at the foreign exchange market by the fixing of the price of gold. But the constraints on trade were staggering: a bankrupt government (at least for U.S. government), hyper inflation, a decimated industrial plant; no foreign allies and the CCP's army poised to liberate the island. This was because during the period of 1949–50, Taiwan was not recognized as an independent nation, and all trade between Taiwan and other countries was conducted in dollars or gold. As a result, the KMT government prepared 10 million dollars of import trade fund for the exchange settlements when the monetary reform was enforced. In fear of exhausting all the foreign exchange and gold, the KMT government made every endeavor to settle the trade deficit. One of the useful measures was to conclude an *o/a* (on account) trade arrangement with Japan, the most important trade partner to Taiwan in this period.

According to the “Trade and Financial Arrangement between Occupied Japan and Taiwan” concluded in September 1950, the payment between Japan and Taiwan was made through dollar accounts on the books of the Bank of Taiwan and the Bank of Japan. And the debits and credits accruing in this open account had to be settled by gold or dollars when the gap was over 40 million dollars. Through this kind of open account, Taiwan could barter its sugar for Japan's groceries and medicines without paying dollars or gold. But still the trade deficit was accumulating. In the end of 1950, in order to make up the accumulated trade deficit, Taiwan almost ran out of all its foreign exchange<sup>16)</sup>.

The situation was extremely serious that the letter of credit (L/C) issued by the Bank of Taiwan was rejected by foreign banks. At this critical moment, the U.S. economic aids were resumed after the Korea War broke out. In the immediate post-war era, the strategy of American Asia-Pacific policy was to establish a democratic China under the sovereign of the KMT to resist the menace of Soviet and Japan. However, the Chinese situation took an unexpected turn. By 1949, the defeat of the KMT became clear in the Chinese civil war, and the U.S. began to focus on the opportunities to detach the CCP from the Soviet orbit. As a result, the U.S. decided to place Taiwan outside the Pacific “defense umbrella” in 1949. However, the Sino-Soviet alliances and the outbreak of the Korean War dashed the American hopes for a pro-American China. The policy of nonintervention in Taiwan became untenable and the U.S. aids were resumed.

By the end of 1951, the amount of U.S. aids reached 10% of GNP, besides military assistance, a large fraction of the aid consisted of consumer commodities and industrial raw materials that the government could sell to generate revenue and settle the trade deficit. Furthermore, the aid helped to rebuild the citizen's confidences not only by the practical aids, but also by the promise of America<sup>17)</sup>.

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<sup>16)</sup> In order to settle the trade deficit, the Bank of Taiwan had no choice but to contract a 500 thousand dollars debt to a U.S. private company (Civil Air Transport) in Taiwan.

<sup>17)</sup> In the period of 1951–1965, the total amount of the U.S. aids reached \$1,470,000,000, and it was about one hundred million dollars yearly average.

In 1952, Taipei wholesale price index rose only 3.4%, price level stability was achieved at last.

#### 4. An Examination of Taiwanese Gold Reverse in 1950

The gold reverse which was used to stabilize prices was brought by the KMT government while it retreated to Taiwan in 1950. The true amount of this gold reverse, however, is still in mystery nowadays. Although the KMT government refused to reveal the exactly amount of gold reserve from mainland China, we could estimate the number by the statistics of IMF, and the official documents of the Central Bank of China remained in mainland China.

On 19 August, 1948, to stabilize the currency system in mainland China, the KMT government requisitioned gold, silver, foreign exchange from China, and undertook a plan for superseding CNC with a new currency, the Gold Yuan (abbreviated GY)<sup>18</sup>. According to this emergency measure, the possession of gold, silver or foreign exchange was prohibited, and all private holdings were to be surrendered in returns for GY notes. The attempt to stabilize prices by issuing GY notes failed immediately, but the gold and silver reserves which were requisitioned by emergency order in August 1949, were transferred to Taiwan, and helped to reduce inflation later.

According to the report which Central Bank addressed to Ministry of Finance on 27 November, 1948, the amount of gold, silver and foreign exchange that converted into GY notes was, 1,654,978 MT of gold, 9,038,535 MT of silver, 23,546,860 yuan and 39,047,159 chiao (1/10 yuan) of silver coin, \$47,967,332 of U.S. dollars, and HK\$87,471,175 of Hong Kong dollars. It was approximately \$168 million or GY\$ 3,365 million by estimate<sup>19</sup>. This gold, silver, foreign exchange, and the reserves that the Central Bank of China already held began to be transferred to Taiwan in the end of 1948.

The first record about the transfer of gold was a report submitted by the Department of Issuing on 29 November, 1948. The report was addressed for the Governor of the Central Bank, Yu Hung-chuan, and stated that 2,004,459.06 MT of gold was already loaded for shipment. It also said that under the protection of navy ship, Mei-pon, the cargo of gold would arrive in Taipei on 5 December<sup>20</sup>. Early in the year of 1949, navy ships loaded with gold and other treasury assets steamed to Taiwan one after another. As the archives we could find by now, the amount of transferred gold was near 3 million MT (see Table 4).

Meanwhile, according to an investigation about the quantity and the stored depository of gold reserves on 9 May, 1949, 2,294,206.687 MT of gold, the 84% of all

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<sup>18</sup>) This and the following paragraphs on the Gold Yuan are drawn from the excellent study by Chang Kia-NGau (1958).

<sup>19</sup>) *Finance Weekly*, Vol. 19, No. 17 Nov. 1948.

<sup>20</sup>) *Archives of Nationalist Government*, Vol. 1, 1989, p. 51–53.

**Table 4** The statistics of gold transferred to Taiwan

Date	Contents	Quantity
1948/11/29	Shanghai→Taipei	2,004,459.06 MT
1949/1/2	Shanghai→Amoy	572,899 MT
1949/1/13	Liuzhou→Guangzhou	192,516.6 MT
1949/1/28	Shantou→Amoy	12 boxes
1949/5/17	Completion of Shipment	192,029.743 MT
Sum Total	2,961,904.403 MT and 12 boxes	

1. Based on data from *Archives of Nationalist Government*, Vol. 1, 1989, p. 51–53; and Vol. 2, 1989, p.54–55, 69–70.
2. Amoy and Guangzhou were transit ports, the final destination was Taiwan.
3. The MT is an abbreviated designation of market tael, 1 MT is equal to 31.25 grams.

**Table 5** The gold holdings of the Department of Issuing

Gold	Quantity	Stored Place	Notes
Pure Gold	130,701.542 MT	No. 15 Depository	Reserves of Gold Yuan
Pure Gold	245,293.853 MT	New York	Reserves of Gold Yuan
Pure Gold	9,271.984 MT	London	Reserves of Gold Yuan
Pure Gold	2,294,206.687 MT	Taiwan	Reserves of Gold Yuan
Pure Gold	50,391.422 MT	No. 24 Depository	Reserves of Xinjian Bank
Gold Coin	1,354.454 MT	No. 24 Depository	Reserves of Xinjian Bank

1. Based on the telegram sent to the Governor of Guangzhou branch of Central Bank by Department of Issuing on 9 May, 1949; *Archives of Central Bank*.
2. The MT is an abbreviated designation of market tael, 1 MT is equal to 31.25 grams.

the gold reserve that the KMT government possessed had already been transferred to Taiwan (see Table 5). On 1 October, 1992, the National Day of the People's Republic of China (PRC), for emphasizing that the amazing economic success in postwar Taiwan is not a miracle, based on data mentioned above, the CCP government revealed to the public the amount of gold and silver taken by the KMT government. These treasury assets included over 3 million MT of gold, 11.36 million MT of silver and 3.98 million yuan of silver coin<sup>21)</sup>. To testify the authenticity of these data which revealed by CCP government, other materials are required. The statistics of IMF and the interior report of Taiwan would be helpful to solve the riddle of gold holdings.

<sup>21)</sup> *Central Daily News*, Taipei, 3 October, 1992.

The data of “International Financial Statistics” stated that Taiwanese gold holdings were about \$45 million dollars in the end of 1950. It was equivalent to 1,285,714 troy ounce, or 1,166,379 MT in the then exchange rate of per troy ounce. In addition to gold holdings, as mentioned above, about 1,998,000 MT of gold was released from the KMT government’s hand by the implement of the Gold Saving Deposit Program until the end of 1950. Altogether, the amount of Taiwanese gold holdings ran to 3,164,379 MT, and it came very nearly to the statistics of the CCP government. Moreover, facing a severe social unrest, the KMT government was forced to pay off military salary by pure gold. In conclusion, we could make a reasonable inference that the amount of gold holdings helped Taiwan to establish the gold standard is no fewer than 3,164,379 MT.

## 5. Conclusion

During 1949–50 Taiwan experienced the gold standard of 100% gold reserve which was the most unique system in the world. Although the KMT government was the original member of IMF, Taiwan was excluded from the Bretton Woods system during KMT’s disadvantage in Chinese Civil War. Therefore, Taiwanese gold standard had no connection with the Bretton Woods system from the beginning<sup>22)</sup>. In addition, Taiwan fought for hyperinflation without any help from the U.S. or any other international organizations in this period. The KMT government could only rely on its gold reserve to reform the declining monetary system.

For the KMT government, from the unsuccessful experience in the reform of Gold Yuan, it recognized that the stabilization of prices was a matter of its sovereignty in Taiwan. In this critical situation, the KMT government drew its last trump card, the gold reserve, to bolster confidence not only in NT\$, but also in government itself. Especially, those who had experienced the failure of Gold Yuan in mainland China already had no confidence in what the KMT did regarding the reform of monetary system. However, the amount of these people who retreated to Taiwan with the KMT government in 1949 was above one million, account for 15% of population in Taiwan at that time. Thus, compared with the reform of Gold Yuan, the KMT government adopted completely different measures to make the reform of New Taiwan Dollar a success. The levy of gold was substitute for release of gold. Thereafter, the timely aids from U.S. helped the KMT government to control the hyperinflation. By the end of 1952, along with the revival of tax revenue that came with economic growth, the prices were stabilized, and the inflation was completely controlled. The gold standard was lasting for only 18 months, but it should be highly esteemed for its role of anti-inflation measures in postwar Taiwan.

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<sup>22)</sup> In fact, the exchange rate of NT\$ at par under Bretton Woods system hadn’t been established by the IMF until 1970.

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