

Letter From Zhou Enlai to I.V. Stalin On Establishing The Exchange Rates Between The PRC And The SU

March 22, 1951

Comrade Filippov, I have received your telegram of March 4.

After studying the issue of establishing a ratio between the currencies of the People's Republic of China and the USSR, we submit the following clarifications and proposal to the Soviet government for consideration.

1. The Soviet ruble has a fixed gold content, while the People's Bank of China's banknotes do not yet have a fixed gold content. We previously proposed agreeing on a procedure for establishing a ratio directly between the People's Bank of China's yuan and the ruble. This has not yet been agreed upon, and therefore, to date, there is no ratio between the yuan and the ruble. In this regard, the relationship between the yuan and the ruble was established through the American dollar exchange rate in yuan. That is, when determining the ruble exchange rate, the value of the US dollar in yuan was divided by four, since one dollar is equal to four rubbles.

2. Currently, the situation is as follows: the value of the ruble is steadily rising, the value of the People's Bank's yuan has largely stabilized and is also increasing to a certain extent. Meanwhile, the value of the US dollar, on the contrary, is increasingly declining. This circumstance necessitates constant adjustment of the relationship between the yuan and the dollar. Every decline in the American dollar exchange rate, in turn, inevitably affects the relationship between the yuan and the ruble. This temporary phenomenon is caused by the fact that a direct relationship has not yet been established between the yuan and the ruble.

According to the People's Bank of China, the current exchange rate of the American dollar against the People's Bank's yuan is somewhat overvalued, not undervalued. In other words, a further decline in the American dollar's exchange rate against the yuan is required.

3. In light of the above, we propose establishing the exchange rate between the People's Bank's yuan and the ruble not through the dollar-to-yuan exchange rate, but rather directly based on the ruble's gold content and gold prices in China. For example, the current price of gold in Beijing is 950,000 yuan per 1 tael (31.25 grams), meaning one gram of gold is worth 30,400 yuan. Since one ruble contains 0.222168 grams of gold, it is equal to 6,753.9 yuan. Calculating the ruble exchange rate through the dollar exchange rate, one ruble is equal to only 5,722.5 yuan.

Goods prices in China have been stabilized for a year now. We could carry out a currency reform, establish a gold content for the yuan of the People's Bank, and, based on the gold content of the currencies of both countries, establish a direct exchange rate between the yuan and the ruble.

However, due to the fact that we are currently providing assistance to Korea in the war, a currency reform cannot be carried out for now. Therefore, we believe that until the gold content of the yuan of the People's Bank is established, the exchange rate between the yuan and the ruble is most conveniently established based on the gold content of the ruble and the price of gold in China.

4. Judging by the prices of essential goods in both countries, our proposed exchange rate is quite high. According to available information, the Soviet part of the Chinese Railway administration in Harbin calculates the salaries of Soviet workers at the rate of one ruble equal to 15,600 northeastern yuan. Since one People's Bank of China yuan is equal to 9.5 northeastern yuan, one

ruble is therefore equal to 1,640 People's Bank of China yuan, which is only 24% of the ruble exchange rate (6,753.9 People's Bank of China yuan), based on the gold price. Incidentally, according to our information, the price of gold in China is comparatively high, second only to the gold price in Bangkok or Bombay on the world market.

Therefore, setting the ruble exchange rate based on the gold content of the ruble and the price of gold in China is currently the only possible solution.

If you agree with the above principles, I request that you appoint representatives to conduct specific negotiations with representatives of the People's Bank of China.

Zhou Enlai