As Yu Xuezong’s situation began to deteriorate at the beginning of 1942, the members of the Shandong Bureau’s Finance Committee were trying to assess the impact of the fabi’s rapid post-Pearl Harbor depreciation. When they recognized the severity of the situation in late May 1942, they spent several months attempting to find a solution to stop the material outflow. It was not until the end of July that they decided the only available approach was to expel fabi from their territories and establish an exclusive zone of beipiao, the banknote of the North Sea Bank. Although Yan’an had encouraged its regional authorities to adopt this approach in February 1942, the Financial Committee of Shandong Bureau, who recognized its political costs, took several months to decide to adopt it themselves. Because the Shandong Bureau was eager to improve its relations with the pro-GMD coalition after Operation Rō, this approach was its last option. On August 1, 1942, the Shandong Bureau district authorities of the Binahi, South Shandong, Jiaodong and Qinghe zones announced the prohibition of fabi in their territories. Jiaodong’s measures took effect on September 19, 1942 and Qinghe’s became effective on October 17. At the end of 1942, this campaign had only been successful in Jiaodong, despite heavy political costs.

As the Shandong Bureau hastily began its campaign to expel the fabi, its leadership did not know the complexity of the situation and attempted to control the circulation of currency through administrative means. In Binhai and central Shandong, the beipiao-fabi exchange rate was arbitrarily set at 1:2; in Qinghe, it was 1:1.8. Having made insufficient preparations, the Shandong Bureau did not establish

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1 “滨海区部署八月一日起以北海币为本位币，八月十五日起法币五折（Beipiao will become a sole currency in Binhai District after August 1; fabi will be discounted 50% after August 15),” Dazong ribao, 4 August 1942 (Beijing: China National Microfilming Centre for Library Resources and Shandong Provincial Library, 1988). See also ZGBYS 1.276–277; “胶东区行政公署关于停止法币流通的布告（The Notice of Chief Administration Office of Jiaodong on prohibition of fabi),” Dazong ribao, September 19, 1942, ibid., 1.247–248; Quanzhong bao, 17 October 1942, ibid., 1.285–286.
a sufficient number of currency exchange offices. Neither did they have enough *beipiao* to replace the *fabi* that people wished to turn in. Except in two sub-districts in Jiaodong, the campaign was a failure and caused political backlash after having created such confusion that regular commercial activities were disrupted. In central Shandong and the Binhai zone, there were outcries against the CCP. Three comments were quoted in a review of the Shandong Bureau. The first was, “While [the Japanese] devils are striking against the *fabi*, the 8RA is also attacking it. Aren’t they assisting the devils?” The second read, “It must be an 8RA plot. The army is about to leave, so is purchasing *fabi* desperately.” The third declared, “This is bandits’ behaviour, as bad as robbing the public.” Although the Shandong Bureau’s agencies were ordered to use the *beipiao* and only accept tax payments in *beipiao* as early as May 29, 1942, this order could not be implemented. Even in the Shandong Bureau’s agencies, the *fabi* remained as dominant as it had been.

Nevertheless, valuable lessons have been learned in addition to the success in Jiaodong. The CCP in Shandong recognized the complexity of currencies through failures and successes. In his review of the first campaign against the *fabi* in the second half of 1942, Li Yu attributed the success in Jiaodong to the local CCP’s healthy financial state thanks to its possession of Joint Bank currency, gold and local products and assets that had created a budget surplus. Because of this, the CCP could adjust the exchange rates between the *beipiao*, the *fabi* and Joint Banknotes according to market conditions. Lessons to be learned in the failed campaign, he claimed, were the following: (1) the quantity of the *beipiao* was insufficient, as was its capital reserve; (2) little was known about market forces, and exchange rates were set arbitrarily; (3) there had been little attention to explaining the policy to the public, there were too few Shandong Bureau finance workers and financial staff did not take the Shandong Bureau’s orders seriously; and (4) the enterprises owned by the Shandong Bureau did not follow the Shandong Bureau’s orders, contravening for their own commercial benefit.

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2 “对敌货币斗争的初步检讨 (A primitive review on currency warfare),” *ZGBIS* 1.277.
3 Ibid.
4 Ibid.
5 Li Yu, “五年工作总结及今后任务 (A review of the works during the previous five years and missions in the future),” ibid., 1.297. Parts of Li’s speech on finance were not included in the version of *SGLD* (see *SGLD* 10.74–75).