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*The International Expansion of
Singapore's Largest Banks*

by
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The International Expansion of Singapore's Largest Banks

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The International Expansion of Singapore's Largest Banks

Abstract

Singapore's "Big 4" banks, plus the newly merged Keppel TatLee Bank, have offices throughout the Asia-Pacific area, in London and North America as well and are also acquiring banks in Asia. Several factors have been particularly salient in explaining the timing and location of their expansion: government policies in the host and home country, ethnic ties based on the Overseas Chinese diaspora, and the family ownership and management of several of the banks. The process of their expansion has been marked by both sequential, incremental moves and by abrupt, large jumps stemming from historical accidents.

1 Introduction

The oldest of Singapore's banks, Oversea Chinese Banking Corporation (OCBC), opened its first offices abroad over 75 years ago, and the earliest foreign branch of any Singaporean bank dates to 1909.¹ Today, Singapore's "Big 4" banks, plus the newly merged Keppel TatLee Bank, have offices throughout the Asia-Pacific area, and in several cases offices in London and North America as well. Through acquisitions and some organic growth, several of the banks have developed a major retail presence in Malaysia, the Philippines, and Thailand as well. Results for 1999 (Table 1) show that overseas assets account for a little more than a fifth of the "Big 4" banks' total assets. Of the banks, Development Bank of Singapore (DBS) has the highest absolute amount though the lowest percentage (19%), and OCBC has the highest proportion (25%).

What makes the story of the international expansion of Singapore's largest banks interesting is the presence of the role for four factors: host government policy, Singaporean government policy, ethnicity, and family management. Of these factors, the roles of ethnicity and family management, while not absolutely unique to the Singapore situation, are certainly more of an issue there than in Europe, Japan or North America.

¹ The Sze Hai Tong Banking and Insurance Co., eventually absorbed into OCBC, opened a branch in Bangkok.

The approach in this paper is one of evolutionary economics. Like biological evolution, evolutionary economics is a historical science. As the biologist Mayr (2000) points out, the evolutionist attempts to explain events and processes that have already taken place. The unit of analysis, at least in the case in this paper, is the individual firm, which is unique in its history, characteristics and capabilities. Because each firm has a unique history, prediction is impossible, at least beyond an enumeration of processes that may be operative. Still, as Windschuttle (1996; p.242) argues, “The impossibility of prediction does not, however, rule out the possibility of comprehension.”

Section 2 is a general conceptual section. Sections 3 through 6 devote a section to each of these four factors—host government policy, Singaporean government policy, ethnicity, and family management—in turn. Section 7 discusses the process of internationalization. The last Section is a conclusion. There are also five appendices that present timelines, one for each of the five largest banks: DBS (Appendix 1); Keppel TatLee Bank (KTL – Appendix 2); OCBC (Appendix 3); Overseas Union Bank (OUB – Appendix 4); and United Overseas Bank (UOB – Appendix 5). Each of these timelines provides a brief corporate history with a focus on the bank’s international expansion. Appendix 6 outlines Singapore’s various bank licenses.

2 General remarks

The internalization approach views FDI as being the result of firms finding it more profitable to exploit opportunities or assets via FDI than via licensing or exporting. As Williams (1997) argues, the approach, which goes back to Hymer (1976/1960) and Kindleberger (1969), provides an adequate general explanation of FDI in banking. In a service industry such as banking, licensing is difficult because of the intangibility of some of

the assets such as relationships with home-country firms. Exporting too is difficult because, unlike in the case of goods, the production of services requires that the producer be in contact with the customer. Furthermore, it is frequently more cost-effective for a bank to go to the customers' countries than to have the customers come to the bank's home country. The internalization approach encompasses both what Caves (1996, 1998) calls asset-seeking behavior and asset-exploiting.

As far as asset-seeking behavior is concerned, as Ragazzi (1973) has pointed out, barriers to the flow of portfolio capital alone may motivate FDI. There is no penalty to acquiring assets when barriers segment capital markets. When it is cheaper for a Singaporean bank to acquire shares in other banks in the region than for its shareholders to do it themselves, FDI itself adds value even if the investor does not improve the acquisition's cash flows in the acquisitions (Errunza and Senbet 1981).

This financial rationale alone could justify some of the Singaporean banks' investments; examples include investment in the PRC or Vietnam. However, many of the markets the Singaporean banks have been entering also permit them faster growth and higher margins than they are able to achieve at home. Furthermore, the 1997 Asian crisis has provided acquisition opportunities because it resulted in some domestic banks in the Philippines and Thailand requiring rescue, and weakened host-government opposition, if any, to the acquisition of domestic banks by foreign banks. However, the acquisition activity pre-dates the crisis and has included operations that were not facing difficulties.

But the banks have not just been passive acquirers of assets. If they were, there would be no need to acquire majority positions. The acquisition of management control suggests that the acquirers believe that through the exploitation of some of the assets that they possess they can improve the cash flows in their acquisitions. The primary assets in banking

are first, the bank's own management, second, the relationships with existing customers—governmental, corporate or individual—and third, the skills or capabilities that the bank can deploy that provide a basis for attracting new customers.

A bank's motivation for its presence abroad links with the organizational form it adopts (Heinkel and Levi 1992), at least when host country regulations do not constrain the choice. The organizational form that foreign banks adopt in foreign markets reflects the product market they are entering. In his pioneering article, Grubel (1977) distinguished three markets: the wholesale, the corporate and the retail.

When banks wish to operate in the wholesale and corporate markets they typically adopt the branch or agency form of representation. Because branches and agencies are integral parts of the parent, they trade on the basis of the parent's capital and reputation. This is important when trading in foreign exchange and interest rate markets, and allows the lender higher loan limits per customer. Generally, branches are cheaper to establish than a subsidiary because they require neither the set-up costs of incorporation nor the ongoing costs of reporting to the local registrar of companies. The primary responsibility for prudential supervision rests with the regulatory authorities in the parent bank's country because a branch is not a separate legal person and so necessarily fails if its parent fails.

The intent to operate in the wholesale markets leads banks to the major world financial centers such as London, New York, Tokyo and Hong Kong, where these markets take place (Tschoegl 2000). Here the Singaporean banks have of necessity been niche participants. The Singapore dollar is not an international vehicle currency. Unlike the US, Japanese, British, Swiss and German banks, the Singaporeans could not build on their home currency's role to win a leading position in foreign exchange or interbank markets. Nor is Singapore a major source or sink for large credits.

The intent to serve corporate clients, either domestic clients moving abroad or host country firms either seeking or open to dealing with foreign banks, leads banks to locate in national financial centers. Obviously, the major world financial centers are also national centers, but other national centers may be a primate city in a country (e.g., Bangkok), the national financial center (e.g., Shanghai), or an important regional center within a country (e.g., Guangdong, Los Angeles, or Osaka).

When going to national financial centers, the foreign bank typically targets its home country firms operating there, but also seeks to appeal to host country firms that may wish to deal with it, frequently because of its links to its own home country. A senior executive of one of the “big 4” banks stated that the target for its overseas branches was a 70/30 split between Singapore-origin and local customers, but that in Hong Kong the operation had achieved a 30/70 split.² Reportedly, small-to-medium sized host country firms would frequently rather be an important client to the small local operation of a foreign bank than an unimportant client to a large domestic bank. Although the foreign bank may be no more capable than its host country rival, the quality of service it offers will be greater. Also, firms domiciled in countries with weak banks or in countries with unstable policies with regards to capital flows, may prefer to route payments through banks like Singapore’s—stable banks domiciled in an economically stable country.³

Singapore’s non-financial firms have spread throughout the Asia-Pacific area. Okposin (1999) in one of the only studies of Singaporean foreign direct investment abroad, finds that it is widely spread both geographically (Table 2) and by sector. Unlike the case of Norway with its energy, shipping, fisheries and lumber, paper and pulp industries (Boldt-Christmas 2001), Singapore does not have global industries that would take its banks to far-flung

² Personal interview with bank officers. I have suppressed an identification to preserve confidentiality.

localities. Following their customers thus tends to keep Singapore's banks within the Asia-Pacific region.

Banks wishing to operate in the retail market in a foreign country tend to operate via local subsidiaries. Again, the subsidiary trades on the basis of its own capital and reputation and responsibility rests with the host-country regulatory authorities. When a foreign bank wishes to take retail deposits, the regulators often explicitly or implicitly insist that bank do so through the modality of a subsidiary. In Australia, OCBC established a subsidiary with several branches in Sydney and other branches in several state capitals. When that strategy proved unsuccessful, OCBC left retail banking and retreated to maintaining just one branch in Sydney.

Furthermore, foreign banks eager to apply their management skills to the retail sector in the host country frequently believe that it is more cost-effective to improve a larger, local acquisition than to build up a *de novo* operation. Thus in Thailand, the Philippines and Hong Kong, DBS has bought subsidiaries as a way to tap the retail market.

The evidence suggests that foreign banks have no particular advantage when investing in already competitive markets. Demirgüç-Kunt and Huizinga (1999) and Claessens *et al.*, (2001) found that foreign banks tend to have higher margins and profits than domestic banks in developing countries, whereas the opposite holds in industrial countries.⁴ This is consistent with OCBC's experience in Australia and the Singaporean banks' general avoidance of retail banking in developed countries, absent an ethnic link. Like the Spanish banks that Guillén and Tschoegl (2000) studied, the Singaporean banks have focused their retail banking efforts on less well-developed markets that are culturally close.

³ I would like to thank Gunter Dufey for this point.

In addition to the internalization approach, a second approach that has emerged in the literature as being of some importance to understanding FDI in banking in particular cases is strategic interaction between firms. This approach has its origins in the literature on oligopolistic reaction (Hymer 1976; Knickerbocker 1973). The broader phenomenon, of which oligopolistic reaction is simply one outcome, is that firms' FDI strategy depends not only on their own capabilities, but also on the behavior of their chief competitors. This has shown up most clearly in the case of banks from Scandinavia (Engwall and Wallenstäl 1988; Jacobsen and Tschoegl 1999) and Spain (Guillén and Tschoegl 2000). The Singaporean case is different from the Nordic case, but shares some similarities with the Spanish case.

In the Nordic case, from the mid-1960s to the early 1980s, the largest banks in each of the Nordic countries entered into cross-border strategic alliances. They formed consortia on the basis of one leading bank from each country used these consortia as the vehicles for their FDI into Europe, the United States and around the world. Legal prohibitions in the Nordic countries on the entry of foreign banks underpinned the cooperation. The cooperation broke down when, as a result of deregulation, the Nordic banks could establish operations in each other's domestic markets and when domestic mergers disrupted existing international alliances.

As happened with the Nordic banks, prohibitions on entry (see Section 3 below) prevented Singapore's banks for many years from going to the nearest, most logical markets for them to enter. However, the lack of a history of regional cooperation, national rivalries, and possibly other factors ensured that the Singaporean banks would not ally with leading banks in neighboring countries. Instead, in 1974 the Big 4 jointly established International

⁴ However, one caveat is in order; in a cross-country study, Demirgüç-Kunt and Huizinga (2001) also found evidence that foreign banks engage in relatively extensive profit shifting, making any firm statements about the profitability of foreign banks suspect.

Bank of Singapore (IBS). This consortium opened offices in Seoul, Taipei, Manila, Los Angeles and Jakarta. However, the parents continued with their own, frequently competing investments abroad, and in 1982, OUB bought out its partners to make IBS its wholly-owned subsidiary.

In the Spanish case, in the late-1980s deregulation caused the long-established banking cartel to break down, giving rise to rivalrous behavior between a shrinking number of the largest banks in Spain. In the early 1990s, Banco Santander (the largest bank in the country) started off a rush to Latin America. Its domestic rivals, the second and third largest banks, Banco Bilbao Vizcaya and Banco Central Hispano followed Santander in its acquisition of banks throughout the continent.⁵

In the Singaporean case, actual and anticipated deregulation at home led to increased domestic rivalry, and deregulation abroad led to increased opportunity in neighboring countries. These in turn led each of Singapore's major banks to increase the pace of its investments abroad and to match its rivals' moves. Thus several have acquired retail subsidiaries in Hong Kong, Indonesia, the Philippines and Thailand, to add to those in Malaysia. In Table 3 we can see that all five banks meet in nine cities, four meet in five cities, and three meet in three cities, not including any meetings due to multiple branches in Malaya or elsewhere.

3 Host government policy

Robinson (1964), in his brief history of Western business outside Europe and North America, referred to the period from the end of World War II to about 1975 as the National

⁵ In 2000, Banco Santander and Banco Central Hispano merged to form Banco Santander Central Hispano. Banco Bilbao Vizcaya merged with the fourth largest bank, Argentaria, to form Banco Bilbao Vizcaya Argentaria.

Era, and presciently argued that an International Era would follow. The National Era was a period of decolonization, rising nationalism, and a stigmatization in the eyes of many of the private enterprise and especially the multinational enterprise (MNE). The International Era is one of increasing openness in which governments at best court and at worst accept the entry of the multinational enterprise.

As Lim (1996) points out, most of the countries of South-East Asia imposed restrictions on inward foreign direct investment in the 1960s-1970s. That is, the restrictions arrived later in the National Era rather than earlier. For instance, in 1963, OCBC lost its branches in Indonesia and Burma (now Myanmar). Elsewhere in South East and East Asia countries such as Malaysia closed to foreign banks or made entry difficult and restricted the banks' operations. The effect was first to reduce and then to impede the potential international expansion of the Singaporean banks, at least until the 1980s or later. Below I deal with the situation in a number of countries, in rough order of an increasing distance from Singapore.

Malaysia: This is the nearest country to Singapore, both historically and geographically. The Malaysian restrictions are particularly onerous for the Singaporean banks as the two banking systems were once one. Absent the restrictions, we would expect the Singaporean banks to re-integrate their Malaysian subsidiaries with their Singaporean operations, re-establishing the pre-1989 situation. As it is, Singaporean banks account for three of the 15 foreign banks and 63 of the 146 branches that these banks operate (Marashdeh 1994). Also, absent the present restrictions, DBS and Keppel TatLee would be able to establish operations in Malaysia.

Under Section 4 of the 1958 Banking Ordinance, the government of Malaysia bars from a banking license any foreign bank that is owned and controlled by a foreign government. This means that later neither DBS nor KTL may open branches in Malaysia.

From 1966 on, the Malaysian government barred existing foreign banks from opening new branches. This meant that any foreign banks that entered after 1966 were limited to one branch. Further entry restrictions followed. Until the Bank of China received a license in 1996, the last foreign bank allowed to enter was Bank of Nova Scotia in 1973. The government also has not issued any new domestic banking licenses since 1979.

In 1989, the government passed a law, with a 5-year grace period, that required all foreign banks to convert their branches into domestically incorporated subsidiaries. OCBC, OUB and UOB all complied. The government also limited foreign shareholdings in individual domestic banks to 10% for an individual and 20% for a corporation, and aggregate ownership to 30%. The government has higher capital requirements for foreign banks, restricts them from opening branches (including ATMs), and bars them from doing business with state-owned enterprises.

The government created an International Offshore Banking Center in Labuan in 1990 and all the Singapore banks have opened Offshore Banking Units (OBUs), including DBS. Still, by definition, OBUs have only limited access to the local market. The most recent regulatory development is that the government has been encouraging mergers between the existing domestic banks.

Indonesia: During their occupation, the Japanese liquidated non-Japanese foreign branches, including OCBC's branches in Sumatra (Wilson 1972). After the war, OCBC re-established its branches in Jakarta, Surabaya and Djambi. In 1963, the government of Indonesia engaged in a policy of *konfrontasi* (confrontation) with Malaysia. As a result, OCBC

was forced to liquidate these offices (Wilson 1972; OCBC Annual Reports). Furthermore, since 1969, the Indonesian government has issued no licenses for branches of foreign banks. As a result of financial sector deregulation in 1988, foreign banks were permitted to form joint-venture subsidiaries provided that 1) the foreign bank was a major bank, 2) that the home country offered reciprocity to Indonesian banks, and 3) that the Indonesia partner had at least 15% of the equity. Since the Asian Crisis, the government has permitted foreign banks to convert joint ventures to wholly-owned subsidiaries, and has started to move towards permitting foreign banks to acquire domestic banks.

Ex-French Indo-China: Singaporean banks have never had any offices in Cambodia or Laos, and had no offices in Vietnam until recently. The rice trade that Huff (1989) describes in which Singapore acted as a hub and entrepôt for Rangoon (now Yangon), Bangkok and Saigon (now Ho Chi Minh City), should have led the Singaporean banks to Saigon at least. OCBC (or banks it acquired) established themselves in Bangkok in 1909 and Rangoon in 1927. Banque de L'Indochine established a branch in Singapore in 1905, precisely to finance trade with Saigon (Lee 1967). As Bonin (1994) points out, the French established the Banque de L'Indochine specifically to counter British influence. Still, OCBC did open a branch in Haiphong in 1938 that closed during World War II.

In 1992, Cambodia passed a bank law and a law governing foreign banks. Since then four Thai banks and a number of other banks have established representative offices, branches and joint ventures.

In 1989, Standard Chartered became the first foreign bank to open a representative office in Laos in modern times. After the passage in 1992 of a law specifically addressing foreign banks, Standard Chartered upgraded its rep to a branch. Since then, several Thai banks have opened branches or representative offices in Vientiane.

Vietnam: Before the fall of the Republic of Vietnam in 1975, several foreign banks, including the major US banks, had branches in the country. The Communist regime seized the assets of the foreign banks and prohibited any further entry. Eventually policy changed as Vietnam began to pursue liberalization. Since 1989, the government has authorized foreign bank entry. Initially it limited the foreign banks to representative offices. In 1992, the government permitted foreign banks to establish branch offices, provided that the banks capitalized the branch at US\$15mn. From 1997 on, there appeared to be a moratorium on the granting of new banking licenses to foreign banks.

Thailand: Four Seas Communications Bank (now part of OCBC) has had a branch in Thailand since 1909. OCBC itself maintained a branch in Bangkok from 1934 to 1939.

In 1993, the Bank of Thailand granted 47 licenses for operations under the newly created International Banking Facility (IBF). Over half of the licenses went to local banks and to branches of foreign banks in Thailand. However, recipients also included 20 foreign banks with no branch operation in the kingdom. The licenses were the first granted to foreign banks since 1978. Until the change, Thai laws had restricted the presence and operations of foreign banks. Those few foreign banks that had managed to open before the prohibition were limited to operating only one branch office.

Myanmar: In 1963, the government of then Burma nationalized the banking system, including the foreign banks. This cost OCBC the branch in Rangoon that it had set up in 1927. In 1994 the government again permitted foreign banks to establish representative offices, but nothing more. All five Singaporean banks entered that year or the next.

Philippines: In 1948 the government prohibited new entry by foreign banks (Citibank and Bank of America had branches that the legislation grandfathered). In 1972, the government passed a law limiting foreign ownership in domestic banks to 20% for an

individual and 30% for a corporation, with an overall cap of 30%. In 1976, the government authorized Foreign Currency Units and OBUs. OUB opened an OBU in Manila in 1977.

The prohibition against onshore banking by foreign banks remained in effect until 1994. At that time the government issued 10 licenses, of which one each went to OUB and DBS. Since then the government has issued no new licenses. Foreign banks also operate under restrictions that do not apply to domestic banks. However, the New General Banking Act allows foreign banks to own up to 100% of local banks and UOB and Keppel Corporation each bought into local banks. (Prior to the amendments to the law, a foreign bank was allowed a maximum 60% stake in a domestic bank.) Still, a foreign bank may not have both a branch and a subsidiary so when DBS consolidated its branch and its acquisition—Bank of Southeast Asia—to form DBS Bank Philippines, it gave up its branch license. DBS is now endeavoring to buy out the minority partners in DBS Bank Philippines and is in the process of also acquiring 25% of Bank of the Philippine Islands, the third largest bank in the country.

Hong Kong: The colony has always been open to foreign banks and the situation has not changed now that Hong Kong is a Special Administrative Region of the Peoples Republic of China. All five of Singapore's largest banks have operations in Hong Kong. OCBC has had a continuous presence (except for the interruption of World War II) since 1923. OUB came in 1959 and UOB came in 1965. DBS (1981) and KTL (1982) are relative latecomers.

Taiwan: Foreign banks have been present since 1959. In 1978, the International Bank of Singapore, a consortium owned by the "Big 4" Singaporean banks, became the first Singaporean bank to establish a branch. At the time the government limited foreign banks to at most two branches, one in Taipei and one in Kaoshiung. In 1980, the government

established guidelines under which foreign banks wishing to open a branch in Taiwan had to be among the 100 largest banks in the world, and have had several years of experience in dealing with Taiwan in some scale. The foreign banks were restricted to operating only one office and were subject to restrictions on leverage and deposit taking in local currency.

In 1988, Taiwan lifted a ban on the establishment of new banks. Although foreign banks were permitted to establish subsidiaries or enter into joint-venture banks, none did so. Since 1994, the government removed many restrictions that limited what foreign banks could do or where they could go. It also no longer required foreign banks wishing to establish a branch in Taiwan to be among the world's largest, provided they did substantial business with Taiwanese firms. It still requires evidence of reciprocity however. It now applies the same ceiling to foreign and domestic parties on ownership of local banks: 5% per shareholder and 15% per related group. However there are still some operating restrictions particularly on NT\$ deposits.

India: In 1969, India nationalized the 14 largest private banks, and forbade the creation of any new private banks. At the same time it imposed restrictions on foreign banks. Foreign banks in India were not permitted to expand the number of their branches, and no new foreign banks were permitted to establish branches, though representative offices were permitted. In 1979, the Reserve Bank of India (RBI) started to liberalize entry marginally, permitting occasional new foreign bank branches on the basis of reciprocity and favoring banks from countries without representation in India. Further liberalization followed in 1983. However, the big change came with India's economic liberalization program, launched in 1991 that led to widespread fiscal reforms. From 1992, the RBI started to authorize new foreign bank branches at a rate in excess of India's WTO commitments. In 1993 DBS opened a representative office in Mumbai that it upgraded to a

branch the following year. When the RBI started to authorize the creation of new private banks in India, Keppel Bank took the maximum permitted stake (20%) in Centurion Bank. Currently OCBC also has a branch in Mumbai. UOB opened a representative office that it has since closed.

PRC: When the Communists took over China, they permitted only six foreign banks to remain. OCBC, with its branches in Shanghai and Xiamen, was one of these.⁶ Although these branches remained, they operated on a very restricted basis, dealing only with foreign trade or foreign exchange transactions. In 1979 the PRC started to liberalize and in 1980 the first representative offices of foreign banks opened.⁷ In 1985, the government started to authorize foreign banks to open branches in the four special zones.⁸ At the same time it authorized joint ventures, and to date about 30 have been established. These banks provide merchant and investment banking services and trade finance for the non-State sector. No Singaporean bank has entered into a joint venture, though there are some alliances such as Keppel TatLee's cooperation agreement with the People's Construction Bank of China. China limits foreign ownership of domestic banks to a maximum of 10% and to date has authorized almost no investments.⁹ Lastly, there is a handful or so of wholly owned foreign subsidiaries.

⁶ The others were Bank of East Asia (founded in Hong Kong in 1918 as a Chinese bank), Chartered Bank (now Standard Chartered), Chiyu Banking Corporation, Hongkong and Shanghai Banking Corporation, and Banque Indosuez. Chiyu Banking Corporation is one of the 12 "sister" banks that operate in Hong Kong but are owned by Bank of China. The 12 sister banks are the Hong Kong branches or subsidiaries of banks that were headquartered elsewhere in China and that were nationalized in 1949. There are also two sister banks in Macao though Bank of China owns only 50% of one. Banque Indosuez's branch remained legally in being until 1985 but had not operated since 1960 or so (Shai 1996). Banque Indosuez closed the branch when it became the first European bank to be awarded a full banking license (for Shenzhen Special Zone).

⁷ The very first was an office of the Export-Import Bank of Japan.

⁸ Hongkong and Shanghai Bank received the first license. Earlier, in 1982, Nanyang Commercial Bank (one of the 12 sister banks) had opened a branch and had begun offering full commercial banking services in Shenzhen.

⁹ The International Finance Corp owns 5% of the Bank of Shanghai. The Asian Development Bank owns 3.3% of China Everbright Bank.

In 1994, the government introduced new regulations that superseded all past rules and created the framework for the foreign presence in banking in China. The regulations established eligibility criteria for foreign banks wishing to do business in China and assigned to the Peoples Bank of China the responsibility for regulating all activities of foreign banks. Later, the government widened the scope of permitted activities to include conducting foreign-currency business for foreign and overseas Chinese individuals and enterprises both in and outside of China, and for State-Owned-Enterprises needing foreign-currency loans.

The government gradually added to the list of locations in which foreign banks could open. Currently, some 240 cities in China are open to foreign banks and their branches; still, the vast majority of the foreign banks are in Beijing, Guangzhou, Shanghai and Shenzhen. All five Singaporean banks have offices in Beijing, and the big four, between them, have 11 offices in seven other cities.

Foreign banks have about a 25% share in the market for trade finance in China. Capital requirements and the limits on foreign banks conducting business in renminbi (RMB), however, has resulted in foreign-owned banks' incomes coming more from fees (for such services as providing guarantees, handling foreign exchange transactions, and issuing letters of credit) than from lending. The rules on lending in RMB are in flux and not entirely transparent.

Korea: Korea opened to foreign banks in 1967. In 1984, the government defined its basic position that foreign banks should ultimately be put on an equal footing with domestic banks. Also, foreign banks were allowed to join the Korean Federation of Banks. Since then the Korean government has followed a policy of phased liberalization of operating restrictions, accompanied by a phased removal of privileges such as access to swap facilities.

International Bank of Singapore was the first Singaporean bank to enter in 1978, and DBS followed in 1982. Now the four largest Singaporean banks all have branches in Seoul.

Japan: About a dozen foreign banks had been permitted to enter shortly after World War II during the Occupation. However, after the end of the Occupation the Japanese government essentially stopped approving further entry. Still, OUB did open a branch in Tokyo in 1963 (see Section 7). Japan started to re-open to foreign banks in 1969. Today, all five of the largest Singaporean banks have a branch or a rep in Tokyo and OUB also has a branch in Osaka.

Australia: Following World War II, foreign banks could enter only as merchant banks, finance companies, and with representative offices.¹⁰ After 1973, restrictions were eased to permit foreign ownership of financial intermediaries to less than 10% for banks and to 50% for non-banks.¹¹ In 1985, Australia allowed 16 foreign banks (out of 42 applicants) to establish subsidiaries with full banking licenses, and lifted the restrictions on foreign ownership of non-bank financial intermediaries.¹² OCBC received one of the original licenses; it and UOB had already established rep offices in 1982, and OUB had established one in 1984. In 1992, the government permitted foreign banks to operate in the wholesale market (i.e., they could not accept retail deposits) as branches and lifted the restriction on the number of foreign bank licenses.

Canada: Prior to 1967 Canada had no prohibitions on foreign ownership of Canadian banks but there were only two foreign banks in the country. A Canadian bank bought one and then in 1965 Citibank bought the other. This acquisition raised a storm of nationalistic

¹⁰ Three existing branches (Banque National de Paris, Bank of New Zealand and Bank of China) were grandfathered, though the Bank of China later let its presence lapse. In 1992, NAB Bank (National Australia Bank) acquired Bank of New Zealand. The Bank of China branch had opened in 1942.

¹¹ However, ANZ Bank only changed its official domicile from the UK to Australia in 1976.

¹² Bank of China received an additional license on the basis of its earlier presence.

opposition and a law passed in 1967 required gradual reduction in nonresident ownership of any bank to 25% over 10 years, barred any person, Canadian or foreign, to own more than 10% of a Canadian bank, and limited aggregate foreign ownership in the Canadian banking system to 25%. Thereafter some 60 foreign banks proceeded to establish non-bank financial corporations. In 1980 Canada passed a new Bank Act that permitted foreign banks to establish banking subsidiaries (Schedule II banks) and representative offices but still limited them to 10% ownership of Schedule I banks, i.e., existing Canadian banks. Revisions to the Bank Act in 1992 and 1997, as well as the NAFTA Treaty and the GATS, have led to some further liberalization of the treatment of foreign banks. For about ten years OUB had a subsidiary in Toronto and UOB still has a subsidiary in Vancouver.

United Kingdom: The UK is essentially open to foreign banks, reflecting the government's interest in maintaining London as a financial center. All the "Big 4" have a branch there, the earliest (OUB) dating to 1963 and the last (DBS) dating to 1979.

United States: The regulatory situation in the US is complex because although the federal government is open to foreign bank entry, individual states have their own rules. Both New York and California permit foreign banks to enter, but restrict them to the agency form or to subsidiaries unless the home country permits reciprocity (see fn. 13). At the time the "Big 4" entered the US market, Singapore was no longer permitting foreign banks to establish branches. As a result, all four opened agencies in both New York and California. Since then Singapore has eased its regulations however none of the four has upgraded its agency to a full branch. Furthermore, DBS has closed its New York agency and consolidated its operations on its agency in Los Angeles.

4 Singaporean government policy¹³

Before World War II, the British Exchange banks —the Hongkong and Shanghai Banking Corporation (HSBC), the Mercantile Bank (now part of HSBC) and the Chartered Bank (now Standard Chartered Bank)—dominated the scene. The exchange banks dealt with the government, major corporations and well-to-do Chinese.¹⁴ The local banks that grew into the banks that are the subject of this paper were small and insignificant. They dealt with the general Chinese population and intermediated for them with the Exchange banks (Lee 1974; Yap 1982). Lastly, there were several foreign banks, such as the Bank of China and ancestors of what are now ABN-AMRO, Citibank and the Bank of Tokyo, that dealt with trade and their nationals.

After the Fall of Singapore in 1941, the Japanese Military controlled the banking sector through the Nampo Kaihatsu Ginko (NKG), which had complete control over investments of capital in the conquered regions, and the Yokohama Specie Bank, which supervised the local banks. In Malaya the NKG also issued notes and headed the Malai-Sumatra Banker's Association (consisting of Japanese, Chinese and Indian banks), which controlled all banking in Malaya and Sumatra. The Japanese banks—Bank of Taiwan and the Yokohama Specie Bank—served Japanese and local businesses.

In 1946, Singapore became a separate Crown Colony. Initially, a number of foreign banks either returned, or entered for the first time. Also the late 1940s and early 50s saw the formation of several domestic banks. The Federation of Malaya became independent in 1957 and established a Central Bank—Bank Negara Malaya—in 1959. Singapore joined Malaya (and Sarawak and Sabah) in 1963 in forming Malaysia. When Singapore left in 1965, it established the Commissioner of Banking to provide banking supervision and retained the

¹³ The history in this section draws on Tan (1953), Lee (1967), Short (1971), Lee (1973) and Lee (1990).

rules and regulations of Bank Negara Malaya until 1967 when it enacted the Banking Act. Singapore established the Monetary Authority of Singapore (MAS) in 1970 (Lee 1973). From independence to the present, Singapore has maintained the currency board system it had inherited. The MAS thus has all the powers of a central bank except the authority to issue currency notes.

Over the years Singapore adopted policies to protect the local banks, especially in retail banking, so that they could grow and assume a larger share of the domestic market. (It also tolerated the cartel behavior of the Exchange Bank Association, which quoted daily exchange rates and interest rates and charges for its members to follow.) After 1970, the government stopped authorizing the creation of Full Banks (FB; see Appendix 6) either in the form of *de novo* local banks or through the entry of foreign banks. (The one exception occurred in 1973 with the licensing of Tat Lee Bank.)

In 1971, the MAS created the category of Restricted Bank (RB) licenses but authorized few entrants under this rubric. Foreign full banks were not allowed to set up new branches or re-locate existing ones. In 1973, the government created the Offshore Bank (OB) license. The OBs deal mainly with non-residents and large corporations and so have little impact on the domestic middle and retail markets. The restrictions on the entry of foreign banks resulted in Singaporean banks only being able to operate agencies in New York State rather than full branches.¹⁵

Until recently, the situation in Singapore appears to have been consistent with Breton and Wintrobe's (1978) model of regulation by "moral suasion." In their model, the

¹⁴ The British and other foreigners made extensive use of Chinese middlemen, the compradors (Lee 1974).

¹⁵ In the late 1950s and early 1960s, Citibank and Chase Manhattan Bank, among others, and both headquartered in New York City, lobbied the State government for liberalization of the entry of foreign banks. New York proceeded to authorize foreign banks to establish banks, but required reciprocity for New York banks as a condition of licensing. Banks from countries that forbid New York banks to operate branches or

regulators and the regulated develop a pact in which the regulators support a cartel and suppress entry, in return for the regulated submitting themselves to implicit taxes in the form of complying with the regulator's requirements. As Lee Kuan Yew (2000; p. 99) puts it:

“I expressed my concerns to the chairmen of three of our big banks — Oversea-Chinese Banking Corporation, United Overseas Bank and Overseas Union Bank. From their responses I concluded they were not awake to the dangers of being inbred and of failing to be outward and forward-looking in an era of rapid globalisation. They wanted the government to continue to restrict foreign banks from opening more branches or even ATMs (automatic teller machines).”

In 1997, Lee Kuan Yew started to implement changes. He used government-owned DBS as a bellwether, encouraging it to appoint an outsider, an American—John Olds—as Chairman and CEO. He also changed the leadership of the MAS to bring in people committed to liberalization and less solicitous of the banks. In particular, his son, Brigadier-General and Deputy Prime Minister Lee Hsien Loong, became chair of MAS.

As part of its program of liberalization, in 1999 the MAS created two new forms of license: the Qualifying Full Bank (QFB) and Qualifying Offshore Bank (QOB). It then awarded the QFB designation to four foreign banks that had been operating in Singapore for some time under RB licenses and that had been lobbying for greater access to the domestic market.¹⁶ The idea behind the QFB license is to offer a limited number of foreign banks (4) greater freedom to operate in the domestic retail market, and hence to increase rivalry. Even so, the Government is not willing to lift all restrictions as it would like domestic banks to retain at least 50% of the domestic deposit market.¹⁷ So far the response by the four QFB banks has been tepid in that the four banks have not greatly, if at all, increased their presence or activities. At the same time the Government increased the number of RB licenses and the

subsidiaries may establish themselves in New York, but may only operate with representative offices or agencies, not branches.

¹⁶ The four were (with their original date of entry into Singapore in parentheses): ABN-AMRO (1858), Standard Chartered (1859), Citibank (1902) and Banque Nationale de Paris (1971).

number of QOB licenses. The rationale here is to improve Singapore's position as an international financial center.

The Government now welcomes new, rivalrous entrants to the domestic market because the MAS is encouraging local banks to merge, and it would like to prevent the emergence of a domestic duopoly. As Klein (1979) argues, the "hidden foot" of rivalry is a greater spur to efficiency than the "hidden hand" of the search for profits.

The Government's logic for encouraging mergers is that if Singapore is to be able to retain domestic banks that are also able to be major regional banks, the domestic banks must consolidate. The banks cannot grow organically to the requisite size, and the domestic economy cannot support four or five banks of the requisite size. Also, the government is not convinced that the island can generate sufficient talent to field five top-notch management teams.

To force the pace it arranged the merger between DBS and the POS Bank, both government-owned.¹⁸ It also arranged the 1998 merger between Keppel Bank and Tat Lee Bank (weakened by problem loans to Indonesian clients), that formed Keppel TatLee Bank with the government-owned Temasek Holdings and the Keppel Group as the major shareholders.¹⁹ The Government is also accommodating cases where the domestic bank now wishes to bring in a strategic foreign equity partner as part of its business strategy; this required the lifting of the 40% cap on foreign ownership of domestic bank shares. The only

¹⁷ The current share is 62%. The Singaporean banks account for about 2/3rds as much of the loan market and are generally net providers of funds to the interbank market.

¹⁸ POS Bank is the Post Office Savings Bank. (The first Post Office Savings Bank was opened in 1877.) Most of Singapore's adult workers have POS Bank savings accounts, although balances average under S\$10,000 each.

¹⁹ The Keppel Group created Keppel Bank out of a finance company and the acquisition in 1990 of Asia Commercial Bank (est. 1959). Tat Lee Bank commenced business in 1973 and targeted mostly Chinese speakers. Lanfranconi and Kwok (1998) quote the spokesperson for the Tat Lee Bank to the effect that the bank was not materially affected by the crisis in Indonesia.

example to date of a strategic investor involves Keppel TatLee as the recipient.²⁰ Overall, the Government's ability to force the pace is limited and it cannot dictate the outcome for the privately owned banks. These are commercial decisions that the banks have to make for themselves.

5 Ethnicity

Some 75 percent of Singapore's population is ethnic Chinese in origin. The country's banks were almost all founded by ethnic Chinese and many still bear signs of their origins even in their English names and their logos.²¹ The ethnic character of the banks has three aspects with respect to FDI that we will call the "bridging and bonding," the common language and the political aspects.

The Overseas Chinese migrated into South-East Asia with the encouragement of the colonial powers who sought their services as a vital commercial and professional middle class, while keeping them out of government (Yambert 1981). The outcome was a group that prospered greatly but that was ethnically distinct from the indigenous population who, after independence, came to dominate the government, as well as providing the mass rural peasant and urban working classes.

Table 3 shows the disproportionate wealth of the Overseas Chinese population in five South-East Asian Countries. The ratio of the share of market capitalization of firms owned by Overseas Chinese to their share of the population ranges from a little above 1 in

²⁰ The foreign partner is Allied Irish Bank, which has an agreement that it may take up to a 24.9% stake in Keppel TatLee. Allied Irish is active in similar arrangements in several banks in former Communist countries in Eastern Europe.

²¹ OCBC uses a stylized image of a Chinese junk, in red, an auspicious color. OUB uses a picture of an old, common Chinese copper coin, with the bank's name in Chinese characters on it. In 1971, UOB introduced its logo, which derives from the traditional Chinese 'five-barred gate' tally system and is also in red. For more on visual imagery and corporate identity in East Asia see Schmidt (1995).

Singapore to 30 in Thailand. In each of these countries the Overseas Chinese population accounts for the bulk of private economic activity and therefore is an important market for banks.

The literature on ties has posited that one can distinguish two types of ties: bridging and bonding ties. Bridging represents ties that link parties and act as a basis for introductions. Haley et al. (1998) argue that the Overseas Chinese networks have five bases: clan (built around family surnames; Pan 1994), language (dialect group), guild, location (native-place associations; Chan 1992) and trust. An individual may be a member of several networks, each drawing on a different organizing principle, but membership in any one network does not imply membership in any other.

Bonding in this context refers to ties that bond performance. The economics of bonding ties is that private groups can be a substitute for public laws regulating contracts (Landa 1981; Carr & Landa 1983 and Kali 1999). Within a community of parties that deal with each other, a party that defaults will suffer exclusion and ostracism. The following quote gives a sense of the consequence of a loss of reputation: 'The most pitiable creature in China is the man who has lost "face" with his guild, and such a catastrophe is often followed by suicide' (Fowler 1923; p.371).²²

The discussions of the Overseas Chinese, the bank histories and the personal biographies cited in the bibliography make it clear that ethnic ties were very important in the origins and growth of Singapore's banks in the period before World War II and for some years thereafter. They also provided a basis for access to clients elsewhere in South East Asia. However, one should not treat ethnic identity and ties as something involving rigid and

²² Fowler (1923; pp.369-376) has a marvelous discussion of business practices and the morality governing dealings within the community and between members of the community and outsiders, using language that reflects the times.

exclusive categories. For instance, Lee Chee San was a Teochew, born in Burma of Chinese-Burmese parentage who transformed his identity to Hokkien when he got to Singapore and discovered that the change would be advantageous (Yeap 1994).²³ In time he became the first Managing Director of Chung Khiaw Bank, founded in 1950 by Aw Boon Haw to serve the Hakka community. Even in the early days banks with a clear ethnic identity still had directors and senior staff from other ethnic Chinese communities.

Nor should one treat the existence of ties as implying that any Singaporean bank has an exclusive access to any other Overseas Chinese community. First, migration patterns were such that different dialect groups predominated in different countries. Second, in a number of cases local Overseas Chinese had established their own banks with which the Singaporeans would have had to come to terms. In Thailand, for instance, Bangkok Bank is simply the largest (and most multinational) of a number of banks owned by Overseas Chinese (Brown 1990).

The language aspect covers not only a common language, such as an ability to read Chinese, or even to speak a common dialect, but also the benefits of sharing a common culture. Language is clearly important; Lang (1986) posits a language theory of discrimination that he bases on the assumption that economic actors will so arrange their affairs to minimize transactions costs. This leads parties to prefer to deal within a language than across languages. At one point in the history of business in Asia this led to the emergence of compradors—individuals who acted as intermediaries between Western business and local entrepreneurs (Pao 1911; Hao 1970). However, as Cox and Chan (2001) discuss, the function disappeared for a variety of reasons, including the eventual integration of Chinese managers into British firms. In the context of this paper, the point is that linguistic ties give

²³ During WWII he worked in the Bank of China branch in Australia. During this period he met Tan Chin

the Singaporean banks less of a differential entrée than they once might have vis-à-vis banks such as Hongkong and Shanghai Bank of the UK or Citibank from the US.

Cultural similarity too can act to foster preferential access. As Cornell and Welch (1996) show, discrimination can occur when parties that share group characteristics can better judge each other than they can judge the abilities of outsiders. What drives the Cornell-Welch model is risk reduction, not any assessment of differences in ability. Again, like language this is probably a waning asset.

The political aspect has to do with resentment of the Overseas Chinese in some of the countries in South East Asia. The disparities evident in Table 3 have not escaped the attention of local politicians and populaces. Consequently, both Malaya and Indonesia have policies favoring the Malay majority (*bumiputras* in Malaysia and *pribumis* in Indonesia; Lim 1996).²⁴ For instance, following race riots in 1969, the Malaysian government instituted the New Economic Policy (NEP) with the goal of reducing tensions by reducing economic disparities between the *bumiputra* and Overseas Chinese communities. The NEP promoted *bumiputra* advancement through preferential access to education and training, hiring for government service and contracts for public works. However, as Wu (1983) points out, these policies have had some unintended and deleterious consequences including corruption and the disadvantaging of the indigenous population. How all this impacts the Singaporean banks can range from exclusion from dealings with government-owned firms to complex relationships with local authorities.

Tuan in Freemantle and Sydney.

²⁴ Joseph (1991) traces the origins of the policies favoring the Malay population to India under the Raj. We can conjecture that affirmative action in the US may trace its origins to the same source via the influence of Mohandas Karamchand Ghandi on the Civil Rights movement.

6 Family management

The primary issue under this rubric is the effect of family ownership of corporations, and more importantly its subset—family management—on the international expansion of Singapore’s largest banks. Family management has mattered in two ways. It has affected the banks themselves and it has affected the banks’ relationships with other firms and banks.

In East Asia, family control of corporations is ubiquitous. If we examine the percentage of total market capitalization controlled by the top 10 families, the range is from 2.4% in Japan (which is almost an order of magnitude lower than the 18% in Taiwan, the next lowest country) to 58% in Indonesia (Claessens et al., 1999a&b). The figure for Singapore is 27%, almost identical to that in Korea and not much greater than the 25% in Malaysia. In the Philippines, the figure is 53%, with one family, the Ayalas, accounting for 17%.

Of the five largest Singaporean banks, family-ownership remains substantial in three banks—Keppel TatLee, OCBC and OUB—and decisive in one: UOB. DBS has a dominant shareholder in the government, which still owns a little over 40% of the bank. The rest of the shares are publicly held. The government is a major owner of Keppel TatLee through its holding company, Temasek, and indirectly through its holdings in Keppel Corporation and DBS. The Goh family—the original owners of Tat Lee—has retained a 20% shareholding after the merger, but is no longer active in management. OCBC originated in family ownership and the Lee Seng Wee family, of the large Lee rubber group, own some 9% of the bank directly and some 6% indirectly. They remain active in the bank’s direction. The current Chair is Lee Seng Wee who is the son of Lee Kong Chian (the founder of OCB) and has been Chair of OCBC since 1995.²⁵ Lien Ying Chow, the founder-owner of OUB is retired and has no heirs. The Lien Foundation remains as an important shareholder, but

²⁵ Lee Seng Wee joined the board in 1966. He served as CEO from 1995 to 1998.

foundations are passive owners relative to families. UOB is still very much family-owned and managed. The Wee family owns some 40% of the bank with Wee Cho Yaw as Chairman and CEO, and his son Wee Ee Cheong as Deputy Chairman and President.

Owner-manager firms have different governance problems from those that face publicly owned firms. A key strength of owner-managed firms is the absence of principal-agent problems, and there is some evidence that owner-managed firms have a better performance than publicly owned firms do (Tan et al. 2001). However, the governance of the owner-managed firm can differ in the variance of outcomes too, with owner-managed firms possibly having a higher variance in their performance. The reason is that the owner-manager does not have to persuade others, such as a board of directors, of his strategy. There is no one who can say no, either to good ideas or to bad ones.

Laeven (1999) investigated the performance of banks in Indonesia, Korea, Malaysia, the Philippines and Thailand. He found that foreign-owned banks took little risk relative to other banks in the East Asia region, and that family-owned banks were among the most risky banks, together with company-owned banks. After the 1997 crisis, restructured banks tended to have had excessive credit growth and were mostly family-owned or company-owned. They were almost never foreign-owned.

This touches the Singaporean case in two ways. On the one hand, the merger of Keppel Bank and Tat Lee Bank reportedly came about following losses on Indonesian investments in the family-managed Tat Lee Bank. On the other hand, other Singaporean banks benefited from the Asian crisis by being able to acquire banks that had gotten into trouble.

The structural issues that typically face family-managed firms include capital raising, management and mergers (Chan 1992). The capital raising issue arises when the bank needs to increase its capital but the owner-manager is reluctant to do so if that would mean

accepting dilution of the family's share ownership. The management issues include possible problems with nepotism, difficulty in recruiting and retaining top managers who know they can only rise so far, and at some point managing the transition to professional management.²⁶ Lastly, owner-managed firms often have difficulty accepting a merger of equals or being acquired even when that is best for the firm, and especially when the merger partner or the acquirer is another owner-managed firm.

The issue of share dilution came to the fore in 1998/99 when DBS, OCBC, OUB and UOB all merged their two classes of shares (domestic and foreign) into one. At the time, foreign shares were trading at a premium, which disappeared as the distinction between the two classes disappeared. DBS and OUB, neither owner-managed, both decided to issue extra shares to the owners of the ex-foreign shares to compensate them for their lost premium on shares they had bought through rights offerings. OCBC and UOB, both owner-managed, decided to pay cash instead.

It is not clear whether management issues have been a concern. There is one interesting anecdote involving both access to the top ranks and nepotism, or the lack of it. Tan Chin Tuan, the Chairman of OCBC from 1966 to 1983, rose from the staff of Chinese Commercial Bank.²⁷ When he became CEO he did not permit his son or his brother to join the bank. Currently, the CEOs of DBS, KTL, OCBC and OUB are all outsiders, though the Chair at OCBC is a family member. At UOB family members hold the Chair and CEO positions.

Lastly, family-management has implications for relationships between the banks and other firms. This takes two forms, the relationship with group companies and relationships

²⁶ Landes (1975) has a fascinating account of the differences between the Rothschilds and the Bleichröders in managing some of these problems.

²⁷ He joined China Commercial Bank in 1925 and became managing director of OCBC in 1942.

with other family firms. From their origins, banks such as OCBC, OUB and UOB have been part of economic groups, each centered on the bank in question and tied together by family equity ownership (Brown 1990; Haley *et al.* 1998). When group companies go abroad and the bank follows (or leads), one can expect the bank to have preferred access to the companies' business. Some bank executives, in interviews, stressed that group companies were free to take their business to other banks if they could get more competitive terms. Still, one can expect that, all other things equal, the group bank will get the nod.

As discussed earlier, family-owned business dominates in South East Asia. If one models relationships along the lines of Telser's (1980) implicit contracts, one can readily argue that patriarch-to-patriarch relationships are likely to be more durable than patriarch-to-hired manager or hired manager-to-hired manager relationships. In the patriarch-to-patriarch relationship, one can expect both parties to view the relationship as open-ended with a long horizon. By contrast, managers come and go, at their own volition or that of others. Furthermore, relationships between family firms may span several sectors.

7 The process of international expansion

The dominant model of the process of international expansion in FDI is one of incremental expansion and has its origins in the work of Johanson and Vahlne (1977). The model is one of rational search in a world in which information acquisition is costly. Thus this literature emphasizes the role of small, sequential steps both in terms of the scale of operations in a particular country and the geographic scope of the firm's operations. That is, the firm escalates its commitment in a country as it builds its volume and knowledge and goes to countries that are "close" before going to ones that are farther away. This model of

local search is consistent with the view of the process as one of acquisition and utilization or abandonment of options to expand (Kogut 1983).

A representative office is a particularly cheap option as it requires only a small staff—a representative and a secretary—and a rented office. If, through the exploratory activities of its representative, the parent bank comes to believe that there is sufficient business to warrant it, the bank establishes a branch. In time, if the number of branches expands as the bank comes to penetrate the general commercial and retail banking market, it may come to establish a subsidiary.

This model does not assume that the reason for the first investment, the acquisition of the option, is the reason for subsequent investments. A bank may open an office in a location expecting to do primarily one sort of business and come to do another.

Of course, not all experiments succeed. Sometimes a bank establishes an office only to close it when it appears that there is little likelihood that sufficient business will develop. Thus OCBC established a branch in Bangkok in 1934, only to close it in 1938; OUB established a subsidiary in Toronto in 1982 and closed it in 1993; UOB opened a representative office in Fuzhou in 1991, but closed it in 1999.

As far as geographic scope is concerned, the model suggests that firms, including banks, will go to nearby markets first. Then, as each bank becomes knowledgeable about the process of establishing operations abroad and operating at a distance, it will start to establish operations that are further away. One issue though is what constitutes nearness. Ethnic and other ties can link places in bankers' perceptions despite geographic distance. Hanson (199) shows that there is a negative correlation between cultural distance and flows of foreign direct investment from developed countries to developing ones. Singapore's membership in the British Commonwealth probably worked to make London "nearer" than, for instance,

Seoul. Lundan and Jones (2001) have found evidence for a “Commonwealth effect” in countries’ trade and direct investment patterns. This, plus London’s role in the 1960s as a financial center for both Sterling and the emerging Eurodollar market (Shenk 1998), combined to make it a more important destination than New York, or several other possible destinations, for all the “Big 4.”

Although the model of incremental growth is reasonably descriptive of the expansion process of Singapore’s leading banks, one must not forget the role of random factors, and especially events, as a source of non-local search. Obviously the location of financial centers is at least one random factor that gives rise to large geographical jumps in location. However, there are at least two striking examples of events that are also worth mentioning to illustrate the point.

In the first case, as Lien Ying Chow describes it in his autobiography (1992), Mitsui Bank wanted to open an office in Singapore in 1963. At the time, the Japanese government was not granting foreign banks licenses to open in Japan, but they offered the Singapore government a slot in reciprocity for access to Singapore for Mitsui. The Singaporean government offered the opportunity to Lien and OUB, who accepted it. At the time, OUB’s only other foreign offices were in Malaysia (which was not really foreign) and Hong Kong. Having decided to open an office in Tokyo, Lien decided to open also in London. The branches worked in the interbank market in Sterling and were profitable from the first year (Lien 1992).

The second case took place between 1963 and 1965 and involved UOB (then United Chinese Bank; see Appendix 5). In 1963 Indonesia launched its policy of *konfrontasi*, which almost led to war with Brunei and Malaysia (which then included Singapore) and encompassed mutual trade embargoes among other economic measures. At that time some

70% of UOB's trade financing was with Indonesians and *konfrontasi* cut the bank off from these clients. In 1965 UOB opened a branch in Hong Kong because it needed a third country through which to route its business with Indonesia. The Hong Kong branch became UOB's first overseas office.

8 Conclusion

Today, Singapore's five largest banks all operate internationally and are multinational, if one bases the definition on the criterion of operations in six or more foreign countries. Furthermore, overseas operations represent an important proportion (20%+/-) of the banks' assets. In several countries, such as Hong Kong and Thailand, the Singaporean banks own important subsidiaries. This paper has attempted to document and comprehend this expansion.

Much of the literature on the international expansion of banks has focused on the banks from large, developed economies such as the United States, Japan or Great Britain. This is not surprising as these banks account for much of the world's FDI in banking. However, focusing in on these countries of origin risks the creation of a biased view of the total phenomenon of the internationalization of banks. The internationalization of banks from small countries or from developing ones is likely to differ in important ways from that of the banks from large, developed economies. Singapore's banks provide a case in point.

Clearly, the Singaporean banks have gone to financial centers and have followed the business of their corporate customers. However, in financial centers they have been niche participants. In following the business of their customers, they have been limited by the regional scope of that business. More importantly, however, the Singaporean case highlights the role of four factors that are rarely as salient in the case of banks from large, developed

economies: host government policies, home government policies, ethnicity and family ownership of banks.

Singapore, itself the product of decolonization, found its banks stripped of some of their overseas operations and then further limited in their ability to expand abroad as a consequence of the decolonization of its neighboring countries. Until recently, the regulatory stance of the Singaporean government muted rivalry among the domestic banks, reducing the impetus to internationalization; this is now changing as evidenced by the spate of acquisitions of banks abroad. Singapore's population is heavily of Overseas Chinese origin, and most of the country's banks show that in their names and characters. This ethnic identity has been a two-edged sword, providing access to some markets, and arousing opposition in others, or even some of the same ones. Lastly, all but the largest have their origins in family ownership and management, something which may have stood them in good stead in the past, but which now confronts them with the problems of transition to the next generation and to the professionalization of management. Finally, the process the banks have undergone in their internationalization has been one of incremental expansion geographically, supplemented by bold jumps when opportunities or necessity presented themselves.

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Appendix 1: Development Bank of Singapore (DBS)

1968: The Singapore government establishes DBS.

1974: DBS helps form International Bank of Singapore (see OUB).

1976: DBS opens a rep in Tokyo and upgrades it to a branch in 1977.

1979: DBS opens an agency in New York.

DBS opens a rep in London and upgrades it to a branch in 1981.

1981: DBS opens a branch in Seoul.

The Hong Kong licensed deposit taking company established in 1979 becomes operational. In 1990 DBS receives a branch license and the branch is operational in 1991.

1982: DBS sells its share in International Bank of Singapore to OUB.

DBS opens an agency in Los Angeles.

1983: DBS opens a branch in Taipei and adds an OBU in 1984.

DBS opens a rep in Hong Kong.

1984: DBS opens a branch in Osaka but closes it in the late 1990s.

1989: DBS opens a rep in Jakarta.

1990: DBS establishes an Indonesian JV (DBS 42.5%; Tat Lee 42.5%; and PT Bank Buana Indonesia 15%). The JV is PT Bank DBS Tat Lee Buana. The JV has a headquarters in Jakarta and a branch in Surabaya. Bank Buana Indonesia was founded in 1956.

DBS takes a 13.5% stake in Tat Lee Bank.

1991: DBS buys an initial 3.4% of Thai Danu Bank, which had been established in 1948 and commenced operations in 1949, and which numbered members of the Thai Royal family, senior government officials, and local merchants among its initial shareholders.

1992: DBS buys 10% of Wing Lung Bank in Hong Kong.

DBS opens a representative office in Bangkok and upgrades it to an OBU in 1993.

1993: DBS establishes a rep office in Beijing.

1994: DBS gets permission from the Malaysian authorities to set up a representative office in Kuala Lumpur and an offshore branch in Labuan. The OBU opens in 1995.

DBS establishes a rep in Mumbai and upgrades it to a branch in 1995.

DBS establishes a rep in Yangon.

1995: DBS gets a license to operate a full branch in the Philippines.

DBS opens a branch in Shanghai.

1997: DBS buys Mitsubishi Bank's 85% share in PT Bank Mitsubishi Buana and sells its 42.5% share in PT DBS Buana Tat Lee to Tat Lee Bank. In 2000, DBS increases its stake to 99%.

1998: DBS merges with POS Bank.

DBS also acquires 60% of Bank of Southeast Asia in the Philippines. It consolidates its existing branch with its new subsidiary and renames the bank DBS Bank Philippines. The ASB Group of Companies remains the largest Philippine shareholder. In 2000, DBS raises its stake to 72% and receives approval from the Bank of the Philippines to wholly acquire the bank.

DBS increases its stake in Thai Danu Bank to 50.3%.

1999: DBS increases its stake in Thai Danu Bank to 52%.

DBS acquires 87% of Kwong On Bank (KOB), a small retail bank in Hong Kong from Fuji Bank and public shareholders. The Leung family and some of the other original owners hold the remaining 13% of the shares and members of the Leung family remain on the Board of Directors. DBS delists Kwong On from the Hong Kong stockmarket.

DBS acquires the Philamlife Group's 7% stake in Far East Bank and Trust of the Philippines (FEBTC) and the International Finance Corp.'s (IFC) 3% stake. FEBTC is merging with Bank of the Philippine Islands (BPI). DBS also buys JP Morgan's 12% stake in BPI, giving DBS 20% in all of BPI. In 2000, DBS receives Bank of the Philippines approval to raise its stake to 25%. BPI is part of the Ayala family's holdings. BPI was founded in 1851 as the Banco Espagnol Filipino de Isabel II and is the oldest bank in South-East Asia.

DBS also decides to consolidate its US operations. It closes the New York Agency and transfers the staff and the assets to its Los Angeles Agency.

2000: DBS continues to acquire shares in BPI to reach a 25% stake, which would qualify it for 4 board seats.

2001: DBS buys 71% of Dao Heng Bank in Hong Kong from the Guocco Group of Hong Kong, which itself is controlled by the family-controlled Hong Leong Group of Malaysia.

Sources: Annual reports and press reports.

Appendix 2: Keppel TatLee (KTL)

1959: Asia Commercial Bank founded. The Bank is Teochieu.

1973: Tat Lee Bank gets license. The Goh family own 40% of the bank. DBS owns 14%. The Gohs are Fukkienese, via Indonesia.

1974: Tat Lee Bank commences business.

1976: Tat Lee Bank opens a rep office in Jakarta.

1982: Tat Lee opens rep office in Tokyo.

1990: Keppel acquires Asia Commercial Bank.

Tat Lee Bank establishes an Indonesian JV (DBS 42.5%; Tat Lee 42.5%; and PT Bank Buana Indonesia 15%). The JV is PT Bank DBS Tat Lee Buana. The JV has a headquarters in Jakarta and a branch in Surabaya. Bank Buana Indonesia was founded in 1956.

1992: Tat Lee establishes a rep office in Beijing.

Tat Lee upgrades its HK rep to a restricted service branch.

1993: Keppel buys 10% of Southern Bank in Malaysia, and later raises its stake to 20-25%. Southern Bank buys a small (2%) stake in Keppel Bank. The Bank receives its license at the start of 1995.

Tat Lee Bank establishes an alliance with People's Construction Bank of China.

Tat Lee buys 4.5% of Commercial Bank of Hong Kong.

1994: Keppel contributes 26% of the capital to help found Centurion Bank in India, with head office in Mumbai.

1995: Keppel opens a rep office in Yangon.

Keppel establishes an OBU in Labuan.

Tat Lee opens reps in Taipei and Kuala Lumpur.

1997: Tat Lee buys DBS's 42.5% share in PT Bank DBS Tat Lee Buana to gain 85% of the venture and drops DBS from the name.

Keppel opens branch in Vung Tau, Vietnam.

Keppel Corporation buys 90% stake in ailing Monte de Piedad and Savings Bank in the Philippines after the Central Bank agrees to assume the bank's bad loans. The

bank is renamed Keppel Monte Bank. Eventually the subsidiary will be brought under the Keppel TatLee Bank.

1998: Govt. of Singapore arranges merger between Keppel Bank and Tat Lee Bank to form Keppel TatLee Bank. The merger reduces the Goh family's stake in the merged bank to about 20%.

1999: Keppel TatLee Bank signs an in-principle agreement with Allied Irish Banks (AIB) to give the latter the right to take up to a 24.9% equity stake in the Bank. Allied Irish acquires S\$351mn principal amount of 1% unsecured bonds, due 2002, with 351mn warrants expiring 2002.

KTL integrates AIB's Singapore Private Banking and Treasury operations into KTL.

Sources: Annual reports for TL and KTL, Lanfranconi and Kwok (1998), Ben Kwek, (CEO and MD of KTL), and press reports.

Appendix 3: Oversea Chinese Banking Corporation (OCBC)

- 1906:** Sze Hai Tong Banking and Insurance Co. founded in Singapore. Becomes Sze Hai Tong Bank in 1957. Changes its name to Four Seas Communications Bank in 1964. The bank is Teochew in origin.
- 1909:** FSCB opens a branch in Bangkok that survives to the present.
- 1912:** Chinese Commercial Bank Limited is founded in Singapore. Its first chairman is Lee Choon Guan. The bank is Hokkien.
- 1917:** Lim Peng Siang founds Ho Hong Bank Limited. The bank opens simultaneously in Singapore, and Maur and Malacca in what is now Malaysia. Ho Hong later opens branches in Ipoh, Kuala Lumpur and Penang. Ho Hong rapidly opens branches in Batavia and Palembang in the Dutch East Indies and is the first Chinese bank to engage in international banking. The bank is Hokkien.
- 1919:** Lee Kong Chian founds the Oversea-Chinese Bank in Singapore, which opens branches in Kuala Lumpur, Malacca, Penang and elsewhere in Malaya. The bank is Hokkien.
- 1923:** Ho Hong Bank opens a branch in Hong Kong.
- 1925:** Oversea-Chinese Bank opens a branch in Xiamen (then Amoy). Apparently the business of handling the remittances of the Overseas Chinese was a major impetus.
- Ho Hong Bank opens a branch in Shanghai.
- 1926:** OCB opens a branch in Djambi (Sumatra). Later it closes it, but then reactivates it again in 1936.
- 1927:** OCB opens a branch in Shanghai and another in Rangoon.
- 1920s or '30s:** FSCB opens a branch in Hong Kong.
- 1930:** Chinese Commercial, Ho Hong and OCB agree upon mutual support pact.
- 1932:** The OCBC is born as the result of the merger of Chinese Commercial, Ho Hong and OCB. The UK leaves the gold standard and devalues Sterling. This leaves Ho Hong and OCB in trouble and they approach CCB for help. The OCBC starts functioning on 2 January 1933. OCBC emerges as the biggest and strongest bank in the Straits Settlements. Outside Singapore, it has 17 branches in Malaya, the Dutch East Indies, Shanghai, Xiamen, Hong Kong and Rangoon.
- The Ho Hong and OCB branches in Malaya eventually become OCBC Bank (Malaysia) Bhd.
- 1934:** OCBC opens a branch in Bangkok.

1936: OCBC opens a branch in Surabaya.

1938: OCBC opens a branch in Haiphong that closes during the war.

OCBC becomes the sole agent for family remittances for the Postal Remittance and Savings Bank of China.

1939: OCBC closes its Bangkok branch.

1941: During the War, OCBC moves its head office to India for the duration but the Singapore office continues to function. The Rangoon branch decamps shortly before the fall of Rangoon, continues to operate throughout the war in Chungking, and then returns at the end of the war.

1943: Three branches in the Dutch East Indies close, but the Batavia branch stays open. The Khota Bharu branch closes after Kelantan is ceded to Thailand.

Post-WW II: OCBC reactivates its branches in Djakarta, Surabaya and Djambi.

1949: The Communists come to power in China but permit OCBC to continue to operate its branches in Shanghai and Xiamen, though on a limited basis.

FSCB reopens its Hong Kong branch. This eventually will become one of OCBC's three branches in Hong Kong.

1954: Bank of Singapore incorporated.

1963: OCBC creates Pacific Bank to acquire 97% of Batu Pahat Bank. Singaporean businessmen incorporated the bank in 1919 to serve the needs of the local Chinese community. At the time Batu Pahat in Johore was a center for the production of rubber. OCBC buys the bank in anticipation of the union between Malaya and Singapore.

The Burmese government nationalizes OCBC's Rangoon branch.

Konfrontasi between Malaysia (then including Singapore) and Indonesia costs OCBC its branches in Java.

1966: OCBC's Annual Report reveals that BOS is a subsidiary.

1969: OCBC opens a branch in London.

1970: OCBC joins with Yong Pung How (a local lawyer who later became CEO of OCBC), Continental Illinois Bank, Crown Agents for Overseas Governments and Administrators and Alexander Discount Company to found Singapore International Merchant Bankers Ltd. In 1977, Schroders PLC and the Great Eastern Life Assurance Co. Ltd. bought out the other partners. (Great Eastern was affiliated with OCBC.) Finally, in 1989, Schroders bought out OCBC and Great Eastern.

1972: OCBC acquires a majority interest in Four Seas Communications Bank.

1974: OCBC helps form International Bank of Singapore (see OUB).

OCBC joins with Bank of Tokyo and Yamaichi Securities to form Singapore-Japan Merchant Bank. In 1985 Yamaichi Securities bought out its partners.

1977: OCBC reduces its majority position in Pacific Bank to bring foreign ownership under 50% to enable the bank to qualify for more favorable regulatory treatment. Eventually OCBC's direct stake falls to about 18%, though it comes to own another 22% through its 30% stake in United Malacca Rubber Estates Bhd.

1981: OCBC opens an agency in New York.

1982: OCBC sells its stake in International Bank of Singapore to OUB.

1984: OCBC opens a branch in Osaka. This closes in 1996.

OCBC establishes a rep office in Sydney.

1986: OCBC acquires the remaining shares in BOS and FSCB.

OCBC establishes a 70%-owned subsidiary in Australia under the name Bank of Singapore (Australia) Ltd, with head office in Melbourne. The subsidiary expands to 6 branches (three in the Sydney area, and one each in Melbourne, Adelaide and Perth) by 1990. Then retrenchment begins with OCBC closing most of the branches: Paramatta (1991) and Chinatown in Sydney (1991), Adelaide (1992), Perth (1994) and Melbourne (1995). The head office moves to Sydney in 1993, as in 1996, OCBC converts the subsidiary sole office in Sydney into a branch of OCBC.

1989: OCBC establishes a rep office in Jakarta.

1990: OCBC establishes a rep office in Kuala Lumpur.

1991: OCBC opens the Seoul branch.

1992: OCBC establishes an OBU in Bangkok.

1993: OCBC opens a branch in Tainjin.

The FSCB branch in Bangkok gets an IBF license.

1995: OCBC (85%) and PT Bank NISP (15%) set up a joint-venture bank in Jakarta—PT Bank OCBC-NISP—to focus on services for the wholesale and middle markets and to aid trade investment flows between Indonesia and Singapore.

1996: OCBC acquires Yasuda Trust's entire 12% holding in Pacific Bank Bhd. Yasuda Trust had bought its stake from American Express, which in turn had bought a then 20%

stake from OCBC in 1978. The acquisition of the Yasuda stake brought OCBC's direct share in Pacific Bank to 30%.

1998: OCBC absorbs its wholly-owned subsidiary, FSCB.

2000: OCBC sells its stake in Pacific Bank to Malaysian Banking Berhad (Maybank).

Sources: Annual reports, Tan (1953), Wilson (1972), Loh *et al.* (2000) & press reports.

Appendix 4: Overseas Union Bank (OUB)

1947: Lien Ying Chow incorporates the bank. The bank is Teochew.

1949: OUB begins operations.

1958: OUB begins open a branch each in Malacca and Penang.

1959: OUB opens its next branch in Malaysia in Kuala Lumpur.

OUB opens a branch in Hong Kong.

1963: OUB opens a branch each in Tokyo and London. Mitsui Bank wanted to open in Singapore so the Singaporean government took advantage of the opportunity to gain reciprocal access to Tokyo for one of its banks and tapped OUB.

1973: OUB opens an agency in New York.

OUB joins with Bank of America, Dai-Ichi Kangyo and others to establish Asian & Euro-American Merchant Bank. The Bank is re-reorganized in 1978 and renamed Asian-American Merchant Bank. The partners wind it up in 1991.

1974: OUB helps form International Bank of Singapore. The “Big 4” jointly and equally establish International Bank of Singapore to operate mostly outside of Singapore with branches in Seoul (1978) and Taipei (1978), an Offshore Banking Unit in Manila (1977), an agency in Los Angeles (1981) and a representative office in Jakarta (1977).

OUB opens a branch in Brunei.

1975: OUB lists on the Singapore Exchange.

1982: OUB buys out its partners in International Bank of Singapore but continues to run it as a separate entity.

OUB opens a subsidiary in Toronto.

1984: OUB establishes a rep office in Sydney in anticipation of further liberalization of entry in Australia.

OUB establishes a rep office in Beijing.

1985: OUB opens a branch in Osaka and establishes a rep office in Shenzhen.

1986: OUB establishes a merchant-banking subsidiary in Australia.

1993: OUB upgrades the rep office Sydney to a branch.

OUB opens a subsidiary in Nassau, the Bahamas.

OUB ceases operations at its subsidiary in Toronto.

- 1994:** To comply with Malaysian legislation requiring foreign banks wishing to operate in Malaysia to incorporate locally, OUB creates Overseas Union Bank (Malaysia) Berhad (OUBM) to take over OUB's 12 branches there.
- 1995:** OUB opens a representative office in Yangon, following the opening of the Bangkok International Banking Facility.
- 1996:** The Bank opens an offshore banking branch in Labuan and a rep office in Ho Chi Minh City.
- 1998:** OUB absorbs International Bank of Singapore (IBS), including IBS' three Singapore branches and five overseas offices.
- 1999:** OUB closes its agency in Los Angeles but retains its representative office.

Sources: Annual Reports, Anon. (1974), Lim (1998), Tan (1953) & press reports.

Appendix 5: United Overseas Bank (UOB)

- 1920:** Eu Tong Sen establishes Lee Wah Bank. Between the wars Lee Wah specializes in remittance business with Kwangtung. Lee Wah has branches in Singapore and Malaysia and is Cantonese.
- 1924:** Sarawak-born Wee Kheng Chiang founds Bian Chiang Bank in Kuching. In 1956, the bank changes its name to Bank of Commerce.
- 1935:** Wee Kheng Chiang and six friends found the United Chinese Bank (UCB). UCB is a Hokkien bank.
- 1950:** The legendary entrepreneur Aw Boon Haw founds Chung Khiaw Bank (CKB) to serve the Hakka community. CKB opens branches in Singapore, Malaysia (incl. Kuala Lumpur-1956, and Malacca-1959) and Hong Kong (1959).
- 1958:** Tan Yeow Joo establishes FEB in Singapore to serve the Hockchia and Hinghua communities. He steps down in 1963 and the new chairman is Hokkien.
- 1960:** Wee Kheng Chiang's son, Wee Cho Yaw, becomes Managing Director of the bank.
- 1965:** UOB opens a branch in Hong Kong.

UCB changes its name to United Overseas Bank. It does so at the insistence of the British authorities in Hong Kong. As a condition of granting UCB a license to open a branch in Hong Kong, the authorities mandate a name change to avoid confusion between UCB and a local bank with the same name.

- 1966:** UOB opens its second overseas branch, in Jesselton (now Kota Kinabula, in Sabah, Malaysia).
- 1970:** The Bank makes an IPO on the then Joint Stock Exchange of Singapore and Malaysia.
- 1971:** The bank acquires 53% of Chung Khiaw Bank (CKB) from Slater Walker, a UK investment house, which had purchased the majority of the shares of Haw Par Brothers International Co. Ltd. UOB retains the CKB name and keeps CKB's operations separate from UOB's operations.

UOB establishes a rep office in Tokyo and next year upgrades it to a branch.

UOB acquires 36% of Bank of Commerce in Sarawak (ex-Bian Chiang Bank). UOB has effective control through the shares held by other members of the Wee family.

- 1972:** UOB acquires 55% of Lee Wah Bank.

UOB joins with Chase Manhattan Bank and later Nikko Securities to form United Chase Merchant Bankers Ltd. in Singapore. UOB buys out its partners in 1982.

1973: UOB fully acquires Lee Wah Bank, but maintains it as a separate entity.

UOB raises its holding in Chung Khiaw to 82% which, however, is still too low for UOB to be able to require the remaining shareholders to tender their shares.

1974: Datuk Wee Kheng Chiang retires from the Board. His successor is his son, Wee Cho Yaw, who currently is the Bank's Chairman and CEO.

UOB helps form International Bank of Singapore (see OUB).

UOB provides 10% of the initial share capital for American Asian Bank in San Francisco and CY Tung of Hong Kong provides 80%. In 1984, American Asian Bank acquires Toronto Dominion Bank of California. In 1987, Security Pacific National Bank acquires American Asian Bank.

1975: UOB opens a branch in London.

UOB sells its stake in Bank of Commerce (Bian Chiang Bank) to Fleet Group Sdn Bhd. Between 1979 and 1986, Morgan Guaranty Trust owns 30% of the bank.

1977: UOB opens an agency in New York.

1980: UOB opens an agency in Los Angeles.

1982: UOB sells its shares in International Bank of Singapore to OUB.

UOB establishes a rep in Sydney.

1983: UOB establishes a rep in Seoul and upgrades it to a branch two years later.

1984: UOB acquires 70% of Far Eastern Bank (FEB).

UOB establishes a rep in Beijing.

1985: UOB establishes a rep office in Jakarta.

1986: UOB establishes a merchant bank in Australia and a branch in Xiamen.

1987: UOB acquires 87% of Industrial & Commercial Bank (ICB), established in 1953.

UOB establishes a subsidiary in Vancouver.

1988: UOB acquires the remaining shares in Chung Khiaw Bank.

1989: UOB establishes rep in Guangzhou and upgrades it to a branch in 1994.

1990: UOB establishes PT UOB Bank Bali, a joint venture bank in Indonesia with branches in Jakarta and Batam. UOB owns 80% of the JV.

1991: UOB establishes a rep office in Bangkok.

UOB establishes a rep office in Fuzhou but closes it in 1999.

1992: UOB establishes a rep office in Taipei and upgrades it to a branch in 1995.

1993: UOB opens a branch in Australia.

UOB opens a rep office in Ho Chi Minh City that it upgrades to a branch in 1995.

1994: UOB sells its Kota Kitabula branch (the second overseas branch that UOB had established) to Phileo Allied Berhad, a Malaysian group that uses the branch as an entrée to get a bank license to form Allied Bank Berhad.

UOB incorporates United Overseas Bank (Malaysia) Berhad to take over Lee Wah Bank's 9 branches in Malaysia.

UOB incorporates Chung Khiaw Bank (Malaysia) Berhad to take over Chung Khiaw Bank's 17 branches.

UOB establishes a rep office in Yangon.

UOB upgrades the Bangkok office to an International Banking Facility. In 1996, UOB adds IBFs in Ayudhaya and Chonburi.

1995: UOB establishes a branch in Ho Chi Minh City.

UOB opens a branch in Labuan.

UOB opens a rep office in **Mumbai** that it later closes.

1997: UOB merges Chung Khiaw Bank's operations in Malaysia into United Overseas Bank (Malaysia) Bhd, the bank's subsidiary in Malaysia.

1999: UOB merges Chung Khiaw Bank's operations in Singapore and Hong Kong S.A.R. into UOB. The banking Group now comprises UOB, FEB and ICB.

UOB acquires 60% of Westmont Bank, Philippines and its network of 97 branches and renames the bank United Overseas Bank Philippines.

UOB acquires 75% of Radanasin Bank in Thailand, together with its network of 67 branches, and renames the bank UOB Radanasin Bank PLC.

UOB closes its Fuzhou and Osaka reps.

Sources: Annual Reports, Anon. (1985), Tan (1953) & press reports.

Appendix 6: Singapore's Banking Licenses	
Acronym	Description
RO	Representative Offices do not conduct any regular banking operations but promote business and correspondent banking business between their home offices and the region.
RB	Restricted Banks may conduct the same range of business as foreign full licensed banks but they can only have one main branch and cannot accept savings accounts and fixed deposits of less than S\$250,000.
OB	Offshore Banks operate mainly in the Asian dollar market, foreign exchange and wholesale banking with non-residents. OBs may lend to residents, subject to MAS approval and to a per-client ceiling currently set at S\$500 million.
QOB	The Qualifying Offshore Bank license allows the holder to have a lending limit of S\$1 billion per client. QOBs may also accept funds in Singapore dollars from non-bank customers through swap transactions.
QFB	The Qualifying Full Bank license is open only to non-Singaporean banks. The license allows those awarded it to establish additional branches and/or off-premise ATMs as well as to share ATMs amongst themselves.
FB	Full Banks conduct a whole range of banking business for retail and corporate clients. The license is open to Singaporean and non-Singaporean banks but foreign holders of the license are subject to restrictions on the opening of branches and access to automated teller machine networks.
ACU	An Asian Currency Units is essentially an operational entity within a financial institution that has MAS approval to deal in the Asian dollar market. ACUs must maintain separate books for ACU transactions because these transactions receive favorable income tax treatment. Since 1968 many foreign banks with full, restricted or offshore licenses have created ACUs.

Table 1: In 1999, overseas assets represented about 22% of the total assets of Singapore's "Big 4" banks

	<u>Singapore</u>	<u>Overseas</u>	<u>Total</u>	<u>O'seas/Total</u>
	S\$'000	S\$'000	S\$'000	
DBS	86,241	20,224	106,465	19%
OCBC	40,734	13,555	54,290	25%
OUB	30,582	8,790	39,372	22%
UOB	43,154	13,346	56,499	24%
TOTAL	200,711	55,915	256,626	22%

Source: Bank financial reviews.

Table 2: Singapore's Foreign Direct Investment Abroad, 1995

<u>Country</u>	Value		Number of Firms	
	<u>(\$ mn)</u>	<u>(%)</u>	<u>(No.)</u>	<u>(%)</u>
Brunei	0.092	0	59	1
Indonesia	4.031	9	261	5
Malaysia	9.716	21	1,701	33
Philippines	0.625	1	135	3
Thailand	1.253	3	312	6
Vietnam	0.371	1	57	1
Hong Kong	6.268	14	660	13
Taiwan	0.573	1	111	2
China	2.968	6	608	12
Japan	0.466	1	62	1
Other Asian	0.737	2	0	0
Netherlands	1.021	2	26	0
United Kingdom	3.297	7	144	3
Other Europe	1.233	3	95	2
Australia	1.448	3	232	4
New Zealand	2.118	5	54	1
United States	2.635	6	166	3
Other n.e.c.	8.368	18	270	5
TOTAL	46.240	100	5,159	100

Source: Okposin (1999)

Table 3: The International Presence of Singapore's Largest Banks, 2000

Cities ¹	DBS		KTL		OCBC		OUB		UOB		Ttl ⁴
	Form ²	Year ³	Form ²	Year ³	Form ²	Year ³	Form ²	Year ³	Form ²	Year ³	
Malacca						1917	B	1958	S	1959	
Kuala Lumpur	R	1994	R&Af	1993	S & Af	1917	B & S	1959	S	1956	5
Penang						>1917	B	1958			
Kota Kitabula									B	1966	1
Labuan	O	1994	O	1996	O	1994	O	1996	O	1995	5
Jakarta	R&JV	1976	R&S	1990	R&JV	1989	R	1977	R & JV	1990	5
Vung Tau			B	1997							1
Ho Chi Minh City					R	1997	R	1996	B	1993	3
Brunei							B	1974			1
Bangkok	O & Af	1992	R		B	1909	O	1992	O & S	1991	5
Yangon	R	1994	R	1994	R	1994	R	1995	R	1994	5
Manila	S	1995	S	1997			O	1977	S	1999	4
Hong Kong	B & S	1981	B	1982	B	1923	B	1959	B	1965	5
Shenzen							B	1985			1
Guangzhou									B	1989	1
Xiamen					B	1925			B	1986	2
Taipei	B	1983	R	1996	B	1998	B	1978	B	1992	5
Chengdu					B	1997	R	1995			2
Shanghai	B	1995			B	1927	B	1999	B	1998	4
Mumbai	B	1994	Af	1995	B	1997					2
Quingdao					R	1997					1
Tianjin					B	1993					1
Beijing	B	1993	R	1992	R	1997	R	1984	R	1984	5
Seoul	B	1981			B	1991	B	1977	B	1982	4
Osaka							B	1985			1
Tokyo	B	1976	R	1982	B	1972	B	1963	B	1971	5
Melbourne					B	1986					1
Sydney					B	1982	B	1984	R & S	1982	3
London	B	1979			B	1969	B	1963	B	1975	4
Vancouver									S	1987	1
Los Angeles	A	1982			A	1987	R	1981	A	1980	4
San Francisco							A				1
New York					A	1981	A	1973	A	1976	3
Nassau							S	1993			1

Notes: 1) Cities are in order of their approximate air distance from Singapore. 2) The forms are: R – representative office; A – agency; B – branch; O – Offshore banking unit; JV – join-venture; Af – Affiliate; S – Subsidiary. 3) The year is the year of first entry, regardless of form and of origin in acquisition or de novo establishment, of a currently continuous presence, not including interruption by World War II. Thus we ignore, for instance, OCBC's offices in Indonesia that were closed in 1963. 4) Ttl is the total number of the "Big 4" plus KTL with a presence in the city, regardless of form or scale.

<u>Countries</u>	Share of population (%)	Share of market capitalization (%)	<u>Ratio</u>
Indonesia	3-4	73	18-24
Malaysia	30	69	2.3
Philippines	2	50-60	25-30
Singapore	78	81	1
Thailand	14	81	6

Source: Economist Intelligence Unit