THE POLITICAL ECONOMY OF CHINESE BANKING IN SINGAPORE

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Abstract

This paper examines the political economy of Chinese banking in Singapore. It notes the marginalisation of Chinese business in general by the People's Action Party (PAP) government in general though Chinese banks enjoyed a relatively more and longer period of sheltering and protection. But with both changes in banking and technology and state policies on regionalisation, globalisation and liberalisation of the financial sector as accelerated in the 1990s, the pressure on them to be ready for competition is rising. The financial liberalisation and the merger of Development Bank of Singapore (DBS), a government-linked company (GLC) with statutory board PosBank against the backdrop of the Asian financial crisis, has set the stage for further reengineering of Chinese banks and their strategies for survival. The political economy issues of Chinese banking in the context of these developments and dominance of Singapore Inc are analysed with some prospects are attempted in the conclusion.

The Political Economy of Chinese Banking in Singapore

Introduction

Chinese diaspora as a noun refers to people who have, themselves or their ancestors been scattered from a common place of origin (Ip, et al, 2000 p 5). To the extent that elements of shared culture and interrelationships continue to link them since the 12th century in the South China Sea, it provided the glue for bamboo network capitalism. Survival and success of Chinese family business around the world as a long standing culturalist explanation is premised on a continuing tradition of Confucian ethics which promotes hard work, discipline and entrepreneurship. The sophistication of Chinese peasants in dealing with money as small loans to each other, kinsmen or neighbours rather as than moneylenders as a distinct class in Europe created a perpetual state of lending and borrowing in mutual credit organisations supported by ritual and based on trust (Freeman, 1979). Historical and ethnic factors which birthed overseas Chinese entrepreneurship are unique to Southeast Asia with roots in imperial China (Gambe, 2000, Chan, ed, 2000 and Yeung, et al, eds, 2000). Peculiar to merchants operating in towns, business guilds existed despite being rejected by mandarins. Overseas Chinese conglomerates do compete fiercely among themselves, a negation of a harmonious solid network which links them.

Overseas Chinese migrated and settled in Singapore as they did in Peninsular Malaya and other parts of Southeast Asia especially from the mid-19th century onwards when the British opened up trade and resource extraction in rubber and tin. Like elsewhere in the Association of Southeast Asian Nations (ASEAN), these Chinese were initially sojourners with the intent to return to mainland China until the communist revolution in 1949 (Low, 1995 and 1997). Both their tenacity to traditional family-owned and controlled organisations and cultural and financial ties with families and friends in mainland China creating suspicions had been rather at odds with growth and modernisation. Even the People's Action Party (PAP) had difficulty differentiating between pure Chinese chauvinism and communism and the two had often been treated as one and the same when struggling for independence from both the colonial imperialists and communists (Haggard and Low, 2001, forthcoming).

This paper examines the political economy of Chinese banking in Singapore. Section 2 first discusses the marginalisation of Chinese business in general by the PAP government before Section 3 traces the evolution of Chinese banks in such a political economy context. Following the traditional trajectory initially, Chinese banks modernised and adapted along the way, force paced by both changes in banking and technology and state policies on multiculturalism, industrialisation, regionalisation and liberalisation of the financial sector as accelerated in the 1990s. But even after three decades of protection, Chinese banks still did not appear ready for competition. The financial liberalisation examined in Section 4 and the merger of Development Bank of Singapore (DBS), a government-linked company (GLC) with statutory board PosBank against the backdrop of the Asian financial crisis, set the stage for further reengineering of Chinese banks and their strategies for survival. The political economy issues of Chinese banking in the context of these developments and dominance of Singapore Inc are analysed in Section 5. Some prospects are attempted in the conclusion.

2 Marginalisation of Chinese business

Business networks if they may be called, have semblance of contacts and ties based on traditional guanxi in Chinese associations. Organised by dialects and clans, Chinese associations were the product of British divide-and-rule. Clan associations originated to help new migrants

settle in an alien culture and provided as basic a social function as burial funds for clansmen. Singapore is most numerous and heterogeneous in such associations of any Chinese community in Southeast Asia (Carsten, 1975 and Cheng, 1985). But they had never been on very close terms with government. While they appealed to the Chinese community as symbols of Chinese ethnicity, to the government, they emphasised their contributions to education and social welfare in wider society to avert suspicions of communal and communist inclinations. Functioning at social and communal levels, these clan associations organised along and thriving on intra ethnic lines with little or no inter-ethnic relationships were more like social clubs than focused as trade or business networks. These were more a byproduct and knitted essentially by guanxi where contacts and employment were traded as social and familial favours.

Despite the dominance of Chinese in Singapore, their role in its industrialisation was not in commensurate. A contentious relationship between Chinese capital in family-owned, small, medium-sized enterprises (SMEs) and state representing big capital evolved as follows. In both the import substitution and export orientation stages of industrialisation before and after Malaysia in 1963 and 1965 respectively, the reliance has always been on direct foreign investment (DFI) and multinational corporations (MNCs) for the usual arguments of efficiency and expediency. Given the tension between the government and Chinese business, instead of cultivating local business, MNCs were deemed a more dependable package of capital, technology, expertise and markets despite other developing countries' experiences with economic colonisation and imperialism. The PAP government appeared confident it could make an effective partnership with MNCs with the right policies and incentives for technology transfer. These include joint government training centres to expand and upgrade industrial skills, market-based and other fiscal incentives encourage hard and soft technology transfer including management skills and research and development (R&D).

Unlike other developing country, the PAP never had the negativism of schizophrenia and nationalism which helped the government rationalise the politics of MNCs. It was decidedly confident of its own GLCs and brand of state capitalism which afforded a deeper layer of overall control and domination of resources and legitimacy (Low, 1998). The government seemed neither interested in local business as it was organised nor did it consulted them on policies and did nothing to nurture or appease Chinese business. The bargaining ethos was discouraged and a petitionary one nurtured (Chan, 1976, p 232). It goes well with paternalistic political authoritarianism of the PAP. As such, steady depoliticisation and a high-handed style of government sought to eliminate politics, disclaimed need for conciliation and exhorted trust in PAP leadership.

The reasons for the disdain for Chinese business and preference for the Singapore Incorporated model entrenching a two-legged model of GLCs and MNCs, are economic and political. It serves the government's desire to have control of the commanding heights, squaring with political domination. Right from the start, the government recognised that local business cannot do the job of industrial transformation. Traditionally concentration in small, family-owned sole proprietorships in trade, commerce, real estate, some turned into private or public limited finance companies and banks, seldom joint stock companies in the sense of a separation between ownership and control (Lee, 1978). Chinese business lacked the industrial expertise and skills to cut a manufacturing base unlike Hong Kong industrialists from Shanghai (Lee and Low, 1990). The government also genuinely believed that Chinese tycoons were rentiers and not engaged in real production activities. Consequently, it was not interested to assist Chinese business to make the transition to or play a significant role in export-oriented industrialisation (Rodan, 1989, p 98) or even integrate it with industrial policies and strategies.

Businessmen continued in trading rather than manufacturing by choice because manufacturing is new and risky, possibly too, they feel on more familiar ground where they are well established rather than feel "subordinated" to the newer industrialists and those nurtured by industrial policy (Lee, 1977). Thus, wealthy businessmen remained in banking and finance, commerce and at most, simple processing such as pineapple canning, timber and rubber. If at all, the small market base in Singapore instead prompted investment in Malaysia or Indonesia with large home markets and raw materials such as saw milling and wood industry. Neither did joint ventures appeal to local enterprises as they believe these work in favour of larger foreign partners. Generally, business elites are more commercial and communal than political in outlook.

The state's corporatist nature and facilitation of international capital undercut the vitality and economic independence of local business (Deyo, 1981 and Rodan, 1989). Because local businessmen were not politically inclined, effective or were alienated (Chalmers, 1992, p 63), they did not challenge authoritarian political rules as elsewhere. Local community structures were thus disrupted instead of providing the eladership for challenges to corporatist control. The same corporatist state and institutionalised subordination permeated to the labour unions which were coopted. The circumscription of Chinese business activities in fact, started as far back as by European capital in the early days of rubber and tin industries such as those led by Guthries (Rodan, 1989, p 38).

Exclusionary corporatisation and neutralisation of local Chines bourgeoisie (Chalmers, 1992) was in following with the depoliticisation in an administrative state (Chan, 1975). The difficulties domestic business faced are not due to the inherent failings of local capitalists, but the development strategy of the government (Chalmers, 1992, p 64). Economic success based on foreign capital and export-oriented industrialisation, carving Singapore a niche in the international division of labour fatally diminished the political influence of local capital with the increased material wellbeing of a middle income class and emasculation of the independent working class.

Moreover, two sources of political antipathy to the Chinese are perceived. One is from PAP's ideology of socialistic democracy and political bias which only permitted coexistence before countering the left once it secured its political ground. Two is political chauvinism as Chinese tycoons being more Chinese chauvinists than communists were funding or were involved with the left. Support from the left came from Chinese chauvinism, not the other way around.

The PAP government had suspicions that the Singapore Chinese Chamber of Commerce and Industry (SCCCI) contained an element of Chinese chauvinism and practising closed door policy (Josey, 1968, pp 110 and 116). This aversion to local Chinese business on political grounds or political distrust can be traced to chauvinist Chinese socio-political organisation and even weaker business structure. In its haste and arrogance that Singapore Inc was the preferred model, the government saw no need to rally any substantial representation of local private business interests. Business elites are individualistic in business opportunities and not strong enough to decide or exert pressure on government policy. Only one is in cabinet (Tony Tan) and 10% of Members of Parliament (MPs) were businessmen (Lee, 1978, p 50) but they had to keep their business away from politics.

Traditional Chinese associations began to wane with PAP's policy to develop and integrate by breaking down communal barriers and some closed-shop practices among clans (Cheng, 1985, p 125). They could remain as conduits for cultural and traditional values or easily go into obsolescence as both national identity was espoused and social services taken care of by the government. The policy and meritocratic environment did not help them graduate as effective business network and interest group to influence policy. Dominated by family-owned small

business, big Chinese business was an exception except in banking and finance activities. Even the SCCCI is till today, deemed a social rather than business club.

The SCCCI was a significant breakthrough and first successful effort of community and clan associations to unite and cooperate and for Chinese immigrants to be represented (Chan, 1976, pp 82-84). But it seemed to have difficulty setting its image and identity as it was neither a specialised professional business network nor was it keen to lean overly on its cultural roles which may be politically sensitive. The SCCCI's impact or influence on government policy remains low-keyed and it is needful a strategic plan and outlook itself for the next millennium. The impression that it is still more a social club and needs younger and professional Chinese businessmen to lead. But there is some vicious cycle in effect as the older members and officials have not quite departed from the scene and they cannot motivate newer members much in the meanwhile. Rejuvenating SCCCI in terms of dynamism and legitimacy which it never quite enjoyed, is a challenge. Younger Chinese are alienated from traditional functions and activities of clans associations in general. This is especially true for those in newer, high technology business areas and who rely more on the relatively transparent, meritocratic system for contracts and orders. There may well be some politics at the communal level. The incentive is not terribly high in SCCCI being an effective forum to affect business-government relations. In fact, keeping a distance and making more direct contacts could be more useful.

Unlike affirmative policies elsewhere as in Malaysia and Indonesia, unconsciously and indirectly, Chinese capitalists and landowners faced land dispossession through land acquisition, urban renewal, redevelopment and resettlement. A Robin Hood principle has compensation rates set at recession levels which was socialistic and kept inflation down with growth. Compulsory land acquisition not only dislocated but effectively killed some existing small family-run business. Housing a nation became a successful policy and leitmotif of PAP and Singapore's landscape at the expense of some local business which did not make it to the Housing and Development Board (HDB) shops. On the other hand, HDB shops did spawn a new breed of "mom-and-pop" shops though they were later found to be "hogging" land and labour in low productivity activities even if they served domestic retail.

Local business activism did not happen until the recession in 1985 and national business groups made use of the consultative mechanism under the Economic Committee to win political protection for their interests, decreasing the exclusive and technocratic nature of the corporatist state. The Small Medium-sized Enterprise (SME) master plan released in 1989 epitomised the lingering attempt by the Economic Development Board (EDB) to retain its technocratic dominance and the tussle for "ownership" of the plan (Low, et al, 1996). Since then, chastened by low total factor productivity (TFP) growth and the backlash of political alienation of local businessmen, a more sensitive approach to help promising local enterprises (PLEs) has evolved. Rather than the stigmatising label of SMEs which has led to even the restructuring of the National Productivity Board (NPB) to Productivity and Standards Board (PSB), PLEs became more relevant for the new knowledge-based economy where creativity and innovation are crucial. The PSB is tasked specifically to help local enterprises and improve on TFP dragged down by them. Whereas Chinese capital was bypassed in the manufacturing sector, Chinese family-owned banks enjoyed government's protection for the last three decades. The government is going in the opposite direction currently helping PLEs in manufacturing while local Chinese banks are told to merge and face competition as seen in the next two sections.

3 Chinese banks

Historically, Chinese banks in Malaya followed the traditional family-owned business organisation and structure. The evolution and modernisation to latch on with industrialisation and growth in Singapore of major Chinese banks will demonstrate their response to the state's policies in multiculturalism which devalued the weight of intraethnic competition with time, further rendered more cosmopolitan with globalisation, regionalisation and liberalisation of the financial sector. In this section, we see how the major Chinese banks cultivated niche markets amidst competition between them as owners and partners break off to form new banks, some to merge latter as forced by competition and survival, all in the context of a nonsupportive state.

A pan-Malaya incorporating Singapore exited during the colonial and postwar period and the history of Chinese banking takes a similar geographical configuration. Chinese banking in Malaya dates from 1903 when Kwang Yik Bank was established in Singapore, followed by Sze Hai Tong Bank (latter as Four Seas Communication Bank, 1906), Chinese Commercial Bank (1912), Ho Hong Bank (1917) and Overseas Chinese Bank (1919) (Drake, 1969 and Lee, 1990). Kwong Yik Bank was liquidated in 1913 and Bank of Communication, a semiofficial government concern from Peking had opened a branch in Singapore in 1910. Both Ho Hong and Overseas Chinese Bank expanded domestic banking and they merged in 1932 to form Overseas Chinese Banking Corporation (OCBC) together with Chinese Commercial Bank. The remaining Chinese banks were not as widely represented in Malaya and Singapore. Only Bank of Canton, Chung Khiaw Bank (CKB, 1950), Lee Wah Bank, Overseas Union Bank (OUB), United Overseas Bank (UOB) and Ban Hin Lee Bank conduct offices in both Malaya and Singapore. OUB (commenced 1949), CKB (1950), Industrial and Commercial Bank (ICB, 1953) and Bank of Singapore (1954) were postwar establishments.

These banks were mostly local in character, established to meet the needs of the Chinese community along dialect lines like the clan associations. Kwong Yik was for the Cantonese, Sze Hai for the Teochews and Chinese Commercial Bank, Ho Hong Bank and Overseas Chinese Bank were all founded by the Hokkiens. Another Cantonese group established Lee Wah Bank in 1920. The Chinese banks were characterised as being outgrowths of the staple economy based on rubber and tin (Huff, 1994), starting as banking houses before becoming modern commercial banks. The ethnic and dialect affinity continued till the 1930s when Chinese migration stopped and a more multicultural and modern context emerged. The highly fluctuating export oriented nature of the Malayan economy dictated a cautious policy on loans and advance. But good faith from personal and communal relationship rather than collateral based on property and security persists in the Chinese social setting for credit and finance.

In the past, Chinese banks coexisted with European banks, each catering to customer needs, with little overlap in functions. Postwar banking scene was dominated by three British exchange banks: Mercantile Bank (1856), Chartered Bank (agency 1859, branch 1861) and Hongkong and Shanghai Bank (1877) together with First National City Bank (1902). The British exchange banks were an integral part of the colonial banking system, financing rubber and tin exports and entrepot trade. The Chinese banks catered to the Chinese who were reluctant or unable to seek assistance from European banks. But there is no explicit refusal by European banks of Chinese accounts nor Chinese shunning the European banks. Chinese compradores as native-born agents or intermediaries in business transactions were used by European banks to secure business from the local community. While helpful in contacts and providing information of clients in the Chinese community, the compradores may not be as well versed in customers' creditworthiness and risks due to overborrowing were not uncommon. Europeans thus preferred relying on Chinese banks started as deposit banks which also learnt from the Europeans.

A reversal of the European pattern by the Chinese banks was the setting up international branches with the head office in the staple port of Singapore. Ho Hong was the first Chinese

bank to move into international banking to facilitate direct trade between Malayan Chinese and people in other parts of the world. This was unusual as Chinese banks did not generally engage directly in foreign exchange operations and relied on foreign banks or brokers instead. Each class of banks concentrated on business based on specialisation and ability, the Europeans in exchange, domestic deposit and credit and government accounts, the Chinese for smaller Chinese traders, merchants and business. The division is, however, not rigid with more progressive Chinese banks engaged in foreign exchange business and Western banks maintaining a considerable Chinese clientele, especially the bigger Chinese firms as well.

The Chinese banks played a crucial role in mobilising saving, popularised the use of current accounts among Chinese merchants and shopkeepers and financed trade bills along the lines of modern commercial banks beside intermediating for the European banks. As the Chinese banks pursued a policy emphasising lending, they needed to safeguard their reserves and reduce risk exposure. They did this by following a conservative reserve ratio policy by depositing a large proportion of their capital with European banks which in turn helped to enhance the reputation of and public confidence in the Chinese banks. While the emphasis was on short term credit financing of trade and other commercial activities, the Chinese banks did lend to real state and industrial sectors, relieving the dependence of traders from pawnshops, chettiar money lenders and chit funds with exorbitant interest rates.

OCBC

Three Hokkien banks with their chairmen or directors knowing each other, mooted their merger. Lee Kong Chian, vice chairman of Chinese Commercial Bank was keen to help with the problems in Ho Hong Bank and Overseas Chinese Bank. The merger made OCBC the strongest bank in the Straits Settlement when it opened in 1932. Superficially, OCBC was typical of early Chinese banks, dialect based, directors and top management drawn from the three predecessor banks, power and ownership linked in a Chinese family-dominated bank with a few other minority Chinese families. This was unsurprising with many top management positions were held by people who were not only from the rubber industry but had previously been in control of other Chinese banks.

OCBC inherited the enormous loans made by predecessor banks to Tan Kah Kee which required a consortium of local and British banks to resolve eventually (Loh, et al, 2000). The young man appointed by the consortium to negotiate with Tan Kah Kee was Tan Chin Tuan known to Tan Kah Kee as a child. Tan Chin Tuan's fortitude dealing with Tan Kah Kee did not escape chairman Lee Kong Chian and managing director Yap Twee who brought about the restructuring of OCBC into a modern bank. Tan Chin Tuan redefined the role of a Chinese banker by working closely with the colonial government instead of the traditional minimal contact on regulatory and communal matters. His prewar experience in the public sector and public service as in the Municipal Commission appointed by the governor of the Straits Settlements opened and paved channels and stood him in good stead after the war. The contacts and young students he cultivated when he was in Australia during the Japanese occupation later gave him a network of staff when he expanded OCBC overseas. He became involved in the affairs of the Malayan community, often acting as mediator and won him respect of locals and British. He made a difference in promoting innovation and change while not discarding guanxi and straddled well with foreign and regional networks as well.

Expansion through prudent conservatism and participation in every of Singapore's policies in industrialisation and financial centre development moved OCBC in tandem with Singapore's success. OCBC took over Four Seas Communication Bank in 1972. While a family

network remained, it operated like the kerietsu or chaebol giving the main bank and subsidiaries the autonomy to borrow like any financial institution and "family" members as companis interlocked in complex formal and informal relationships as in crossholdings, interlocking directorates, intragroup trade, capital, technology and personnel transfers. Tan Chin Tuan's vision, ethical principles and management leadership, assisted by others of high distinction. OCBC had Wong Pakshong before he graduated to be chairman in the Monetary Authority of Singapore (MAS), Tony Tan Keng Yam who is Tan Chin Tuan's nephew and left for a stint to join the government as deputy prime minister and Yong Pung How the incumbent chief justice. They all made OCBC a distinctive Chinese bank.

OUB

Another typical story is Lien Ying Chow's entry into the Chinese banking community when he first started Overseas Chinese Union Bank in 1943 (OUB, 1974). He was also the youngest man elected as president of the Chinese Chamber of Commerce. His high profile as a community leader and his importing company which had supplied the British military made it unsafe to stay after the Japanese invaded Singapore. He fled to Chongqing in Yunnan where he set up another bank and found an ideal partner Chi Owyang (Lim, 1999). As China was torn between the communist and nationalist forces, instead of expanding in China, plans to return to Southeast Asia with the British back started with a banking licence obtained in 1947. OUB was opened in 1949 with a gathering of rubber and tin barons and property developers on the board including banker Aw Boon Haw, philanthropist Tan Lark Sye and cinema magnate Loke Wan Tho, stimulated by the postwar boom and demand for such ethnic based customer banking

Some personal alliances also helped as when the Mitsui Bank of Japan opened a branch in early 1960s in Singapore, then Finance Minister, Goh Keng Swee offered Lien a chance to open a branch in Tokyo as a reciprocal arrangement. Lien jumped at the chance after he had expanded to Penang and Malacca branches in 1958 and Kuala Lumpur in 1959. Lien was personal friend of Malaysia's premier, Tunku Abdul Rahman. OUB was keen to tap both financial centres in Tokyo and London and branches were established in both in 1963. However, OUB was managed largely along Chinese lines till 1973. With POSB and DBS set up and the international financial centre firmly pursued, OUB management changed with a new general manager appointed in 1974, Lee Hee Seng, former chairman of HDB. This was probably a strategic appointment as the use of Central Provident Fund (CPF) saving for public housing liberalised to private housing has also spurred mortgage business for commercial banks. OUB took over Asia Commercial Bank in 1983 and International Bank of Singapore in 1984.

UOB

United Chinese Bank was founded in 1935 as the second largest Hokkien bank, joining three other Chinese banks, OCBC, Sze Hai Tong Bank and Lee Wah Bank (UOB, 1985). It took the name United Overseas Bank (UOB) in 1965 with the opening of its first overseas branch in Hong Kong which was to circumvent the Indonesian confrontation. It acquired CKB in 1971 when Slater Walker which controlled Haw Par Brothers began to sell off both Haw Par's interests in a newspaper and bank. It is unclear how UOB was picked over other banks for CKB but Wee claimed he was approached by Slater Walker as UOB had no branches in West Malaysia and CKB had 13 then (UOB, 1985, p 63). Lee Wah Bank (1920) founded by Eu Tong Sen joined the group in 1973 as it faced stiff competition as a small bank. In 1983, the four joint owners of ICB (UOB, OCBC, DBS and OUB) decided it would be in the best interests of the

consortium bank to be owned and managed by a sole party and OUB made the successful bid (UOB, 1985, p 102). Far Eastern Bank (FEB) which was founded by two small dialect groups, Hockchia and Hinghua in 1958 was acquired by UOB in 1984. It had bought over United Chase Merchant Bankers from Chase Manhattan Overseas Banking Corporation and Nikko Securities Company in 1982. With the acquisition of FEB, UOB became the largest bank group then. UOB's founder Wee Kheng Chiang was succeeded by his son Wee Cho Yaw.

Tables 1 and 2 show the relative standing of the big four local banks among top Singapore companies and within the banking industry, respectively. Table 1 shows that banks are by far the largest corporations in terms of assets led by DBS, OCBC, UOB and OUB even if they are not as significant by sales.

Table 1 Big four local banks among Singapore top 1000 companies ranked by sales (S1000)

	DBS	OCBC	UOB	OUB
S1000rank 99/00	10	14	24	33
S1000rank 98/99	18	15	23	35
S1000rank 97/98	24	18	23	37
Sale S$'000	5407126	4747639	3560463	2944469
Sale % chg	46.62	16.36	6.88	8.11
Net profit S$'000	83191	428910	373934	181421
Net profit % chg	(80.92)	(26.81)	(27.08)	(31.32)
Net profit rank	37	8	10	20
Tot asset S$'000	98975316	55736855	50469338	43269081
Tot asset % chg	51.92	(3.13)	2.24	11.34
Tot asset rank	1	2	3	4
Shdr funds S$'000	9128825	6705905	5558581	4112165
Shdr funds% chg	26.84	4.85	4.35	1.74
Shdr funds rank	3	7	8	11
Net prof % sales	1.54	9.03	10.50	6.16
Net prof % assets	0.08	0.77	0.74	0.42
Net prof % shdr funds	0.91	6.40	6.73	4.41

Source: DP Information Network, 2000.

Table 2 Banking Industry average peer for sales 993487

Rank	Bank	Sales S$'000	% chg fr ind	S1000 rank
1	DBS	5407126	444.26	10
2	OCBC	4747639	377.88	14
3	UOB	3560463	258.38	24
4	OUB	2944469	196.38	33
5	Keppel Tatlee	1030562	3.73	84
6	ICB	295027	(70.30)	273
7	Dresdner (SEA)	269609	(72.86)	298
8	Nomura Spore	268843	(72.94)	299
9	Bank of Spore	200619	(79.81)	402
10	Commerzbank (SEA)	169374	(82.95)	460

Source: DP Information Network, 2000.

Senior Minister Lee Kuan Yew himself warned that local family-owned and controlled banks were "going downhill" without foreign talents and competition (Straits Times, 10 May 1999). Before he launched the financial sector liberalisation blueprint, MAS chairman Lee Hsien Loong put up the pressure decreeing there was room only for two major local banks of which the DBS and PosBank is one (Sunday Times, 28 March 1999). The Chinese bankers should have seen the writing on the walls but were probably self assured of their capabilities and satisfied with their own scale and not want to compromise on ownership and control.

Unlike politics as one reason why Chinese capital was abhorred in the initialisation of industrialisation, the experience and longstanding presence since the entrepot days of local Chinese banks played their desired role. Any Chinese chauvinism of bank owners appeared effectively checked by strict MAS rules and regulations and by other informal forms of scrutiny. The banking sector is naturally protected and reserved for local ownership by the 40% foreign shareholding limit for local banks imposed since its Banking Act 1990. There are nine local full license banks among the total of 22. Five more restricted bank licenses will be granted by 2001, raising the number from the current 13 to 18. Since 1971, restricted banks do the same range of domestic banking business as full license banks except that they only one main branch, cannot accept S$ savings accounts and S$ fixed deposits under S$250,000 from non-bank customers. Offshore banks approved by MAS will have lending limit raised from S$300 million to S$1billion, all other offshore banks will have limit raised to S$500 million. Created in 1973, the 98 offshore banks cannot accept interest-bearing S$ deposits from persons other than approved financial institutions.

While the financial liberalisation did not pretend to be a "big bang", (Straits Times, Business Times and Asian Wall Street Journal, 18 May 1999) removing the 40% foreign ownership paves the way for merger of local and foreign tranches of bank shares. Local banks were required to set up "nominating committees" for board and senior management positions, directed at those family-owned with major or dominant shareholder, to recruit talents outside family. It stopped short of forcing mergers, aiming to inject professionalism. Approval from MAS is required for board members and senior executives and their renomination.

A new category of full banking license, qualifying full banks (QFBs) was introduced and up to six will be issued by 2001 and they can open branches and off-premises automated machines (ATMs). Currently, there are nine local full license banks among the total of 22. Five more restricted bank licenses will be granted by 2001, raising the number from the current 13 to 18. Since 1971, restricted banks do the same range of domestic banking business as full license banks except that they only one main branch, cannot accept Singapore dollar (S$) savings accounts and S$ fixed deposits under $250,000 from non-bank customers. Offshore banks approved by MAS will have lending limit raised from S$300 million to S$1billion, all other offshore banks will have limit raised to $500 million. Created in 1973, the 98 offshore banks cannot accept interest-bearing S$ deposits from persons other than approved financial institutions. The liberalisation is a "controlled shift toward greater competition" in "small steps" which are deemed safer than a "big bang" and limits remain as to inroads foreign banks are allowed to make. Some 62% of deposits of Singapore residents are in Singapore owned banks and MAS wanted to maintain this share at no less than 50% and this has deep seated political economy factors beyond economics, efficiency and competition.

Another powerful reason for liberalisation comes from global and technology standpoints making bank merger and size the trend. Even Japanese banks are responding and the merger of

Industrial Bank of Japan, Fuji Bank and Daichi Kango Bank by 2002 will make them the largest banking group with an asset base of US$1241 billion (Financial Times, 21-22 August 1999). MAS chairman Lee Hsien Loong has not ruled out allowing non-financial institutions to offer financial services as industry lines blur and financial supermarkets get bigger and more complex and integrated (Straits Times, 3 December 1999). This is exactly what the repeal of the Glass-Steagall will achieve, allowing the provision of supermarket of financial services.

Singapore is liberalising its financial service ahead of the World Trade Organisation (WTO) and its General Agreement in Trade Services (GATS) under which the financial services liberalisation will come into force by 2003. Going ahead of GATS means Singapore can prepare the ground as with the Chinese family owned banks and some control of what is wants to liberalise first. In any case, it is ready to liberalise to takeoff as the regional financial centre and foreign competition and foreign talents are the best avenues to achieve that. Incidentally, Lee Hsien Loong was voted by Asiamoney as Asia's top central banker for opening the financial sector (Straits Times, 29 April 1999).

It may also be illustrative to compare and contrast Hong Kong and Singapore both as vibrant but different international financial centres especially in relation to overall corporate ownership. Simply put, Hong Kong is run by tycoons and Singapore by bureaucrats. The Hong Kong Monetary Authority (HKMA) and MAS both aim at encouraging strong vibrant banking systems with three tools of controlling competition (Casserley, et al, 1999, pp 209-228). They created just enough competition but not so much as in overwhelming domestic institutions, intervened to some degree to control pricing and imposed firm capital and lending diversification rules or guidelines. Regular consultation with individual banks about activities is to ensure they do not stray away from these guidelines of managed competition though MAS is more active regulator.

MAS restrained competition to maintain profit margins, but a further quest for industry capability is perceived. In addition to Band of International Settlements (BIS) capital adequacy requirement of 12% of risk weighted assets, MAS policies reflected certain moral and political attitudes of Singaporean elites which revered saving, frowned on credit or excessive credit. MAS do not allow banks to issue credit cards to those under 21 years, including for supplementary cards, capped to income. Interaction with banks is not subtle, explicit during regular periodic MAS reviews. During the Asian crisis, HKMA managed interest rates as the HK$ was under pressure. It worked diligently with banks to ensure sufficient liquidity and the smooth handling of few major bankruptcies especially, Peregrine.

The new MAS chairman Lee Hsien Loong personally announced to Parliament, the composite 1997 results of big four even before the banks reported their own results. He went beyond what regulators do (Casserley, et al, 1999, p 218) to reassure market. In the first instance, Lee broke tradition to become MAS chairman as the Finance Minister had traditionally been in charge together with being chairman of the Board of Commissioners of Currency, Singapore (BCCS) for note issue. It was clear he needed the mandate and position to unleash his plans for financial sector reform and liberalisation as discussed.

Despite the Asian crisis, relatively good returns from retail banking, real estate financing, corporate banking provided the bulk of lending by asset volume. But the market remained highly segmented. Institutional investment opportunities are available but seem less exciting. This may change with financial liberalisation and a more "supermarket" concept of banking and other innovations. Cross-listing between the Stock Exchange of Singapore and New York Stock Exchange, the first Internet bank for the Asia Pacific region as established in a joint venture between Overseas Union Bank and First-e on one hand, and new MAS guidelines for managers of capital guaranteed and futures and option funds before they can market their unit trusts to

retail investors on the other are among many developments in the financial sector. The policy balance between pushing ahead to stay as competitive as possible and ensuring prudence at the helm is a classic dilemma in Singapore's context. The political economy of heavy state intervention hand and the big local family banks as laggards is not easy to simplify and resolve and time is running out too as external developments bear heavily on the financial sector which is geared externally.

Setting the scene: DBS-PosBank merger

Before considering the Chinese banks in the financial liberalisation, the scene was being set to have " room only for two major local banks". The logic and rationale for the DBS-PosBank merger is germane. PosBank (former Post Office Savings Bank, POSB) was a statutory board transferred from Ministry of Communication to Ministry of Finance in 1974. It was a leading financial institution for mobilising domestic saving with a target set in 1969 to have one million depositors or one account for every two Singaporeans to be achieved soon (Lim, 1997). That was achieved first quarter 1976 which also saw S$1 billion in deposits reached and POSB was so flushed with funds. It participated in two bond issues for DBS Bank and Keppel Shipyard, financed Neptune Orient Lines' (NOL purchase of five container ships, a single largest local bank loan to Singapore Airlines (SIA) in 1978 (all four GLCs) and gave two loans to government-affiliated National Trades Union Congress (NTUC) to set up Comfort taxi fleet in 1976. It was still serving such national interests but the difference is the loans and terms were on more competitive rates..

There were mild protestations of tax-free interests as an incentive for PosBank depositors which did favour the larger savers despite claim to inculcate the saving habit among small savers among school children, housewives and national servicemen. But PosBank denied its success was due to its tax haven advantage but flare and initiative for marketing. It had ambitions to be a full-fledged bank, opening current accounts in 1984 but still not within the ambit of the Banking Act. In lieu of reserve requirements and other compliances under than Banking Act, PosBank together with CPF and MAS constitute the trio of public sector financial institutions in the unique fiscal process. Their investments are mandated on governments stocks which are not really needed for deficit financing as public sector surpluses had been the norm since the 1980s.

The DBS-PosBank merger seemed to have caught most by surprise as even a new PosBank headquarters was being erected and eventually given over to another GLC when the merger with DBS occurred in July 1998. It was a historical development, witnessing a liaison between a statutory board and a commercial bank (Straits Times, 25 July 1998). The DBS Bank acquired PosBank for S$1.6 billion, paying a premium of 37% over the net tangible asset value of S$1.164 billion. The combined asset base rises to S$93 billion and shareholders' funds, S$9.4 billion moving DBS Bank from 90th position by world ranking to 65th place. This swelling of the asset base of the DBS was important as it has taken a regionalisation path by taking over Thai Danu Bank and Kwong Yik Bank in Thailand and Hong Kong respectively. This is the coup de grace for a more competitive vibrant financial sector as recommended by the Finance Subcommittee.

The PosBank's attractions for DBS include its huge deposit base though this has dropped from two-thirds to one-half of total savings accounts. Its deposits accounted for only one-sixth of the nation's total deposits including fixed deposits and current accounts of commercial banks and it is fast losing as savers have more choices and innovative savings instruments (see Table 3). With PosBank's widespread network of over 600 branches, the DBS, with 290 branches, pulled out of the automated-teller-machine (ATM) (Straits Times, 18 November 1998). In contrast. The

rest of local banks, namely, OCBC, UOB, OUB and Keppel-Tat Lee Bank have a combined 874 branches. At the same time, it is a de facto privatisation for PosBank without losing too much of state control as DBS remains a GLC.

Table 3 Percentage share of total deposits*

	PosBank	Commercial banks	Finance cos	Total
Apr 1998	14.9	76.1	9.0	100.0
1990	15.6	74.6	9.8	100.0
1985	21.4	66.9	11.7	100.0

* Includes fixed deposits and current accounts.
Source: Reported in Straits Times, 18 November 1998.

From a competitive point of view, as one of the Big Four local banks, DBS needs to regionalise and compete beyond its domestic forte where it has graduated from industrial financing to a conglomerate from real estate to other financial services. Similarly, the PosBank may have outlived it purpose since 1972 as an icon for small savers to inculcate the saving habit. On its 25th anniversary, PosBank was boasting being banker to almost all of Singapore's adult workers but their balances average a relatively low of between S$8,000 to S$9,000 (Straits times, 8 July 1997). Only 1.1% of its 3 million depositors have S$100,000 or more in their accounts. It has very restricted avenues for investment which meant very low returns on assets as a statutory board not bound by the Banking Act. It could offer mortgage loans very aggressively, competing on low interest rates while other financial institutions have more leeway like overdrafts with loans, higher loan quantum and other attractions.

While it may be tax haven for higher income savers, with the imposition of the goods and services tax (GST) and up to 70% of Singaporeans not paying income tax, its tax-exempt interest -free carrot is marginalised. Tax exemption will remain until the end of 2004 for the first S$100,000 balance in each savings account. Balances in excess of that sum will attract tax from the beginning of 2002. Credit POSB mortgage rates will remain 1.5 to 1.75% below DBS rates until 1999 and they will be stepped up over three years to reach market levels by 2002. Even the withdrawal of government guarantee for PosBank is inconsequential in such a risk-free environment. Listing PosBank on its own is not an option as it is not significant in size, so the merger skips that stage and reflects government's initiative to merge banks in which it has shareholdings, even in the earlier Keppel-Tat Lee merger where its shareholding was much smaller.

Prime lending rates have fallen leaving little room for further cuts without affecting margins. Having made its sixth interest rate cut, the DBS is girding itself for a bigger share of banking retail market as the merger with POSBank has lowered cost of funds with enlarged assets with expanded deposit base and networks (Business Times, 8-9 January 1999). Prior to the merger, the DBS was more focused on corporate banking. Together with POSBank, DBS has 25% of local mortgage-loan and deposits market and has lower housing loan rates than foreign banks. This gives it the scope to help people refinance housing loans. Lifting protection is the only surest way to get the banks to shake up and upgrade with infusion of foreign talents. The DBS was exemplary, making stunning profits since the crisis with an American CEO formerly from JP Morgan (Straits Times and Business Times, 20 August 1999). Foreign infusion always brings in new expertise and standards especially needed by more traditionally-run Chinese banks.

More important is the DBS poised to go regional having bought a controlling stake in Hong Kong's Kwong On Bank in December 1998 and made Thailand's Thai Danu Bank a subsidiary in March 1998 despite apparent risk of acquiring other banks' risks. Whether this was too early and too high a price, whether the DBS jumped at the opportunity or pushed into it six months following Prime Minister Goh Chok Tong's visit to Thailand, cannot be underscored (Far Eastern Economic Review, 4 February 1999, pp 42-43). The DBS bought a 65% stake in Kwong On Bank which will make it a big player in the Special Administrative Region (SAR) as other big shareholders including Fuji Bank has sold out (Straits Times, 17 December 1998). With Kwong On Bank's 32 branches, DBS HK may be merged/closed. Thai Danu Bank's nonperforming loans (NPLs) constituted some 70% of DBS's S$2.5 billion NPLs in the first half of 1998, a lesson it learnt when it came to acquiring Kwong On Bank. The DBS is on an acquisition trail also in the Philippines and Indonesia. It is poised to entrench itself in regional markets ahead of an economic recovery as domestic market has its limitations.

The government has intended to sell off part of its DBS stake via an equity-linked bond issue of up to US$1.6 billion (S$2.7 billion). This would trim its holding back to 35% from 54% since the DBS-POSBank merger (Business Times, 9 February 1999, Straits Times 10 February 1999 and Asian Wall Street Journal, 11 February 1999). An exchangeable bond is attractive to investors because it gives them equity market exposure with downside protection and attractive to the government too as it can monetise its stake at an attractive level. However, due to lack of demand, the bond issue was cut to US$765 million in three tranches: IS$350 million, 350 million euros and S$30 million, all redeemable in 2004 but can be converted into DBS shares after February 2002.

Thus, while the government's intention is in line with the on-going privatisation programme to divest the non-voting convertible preference shares for the sale of POSBank to DBS in September 1998 and to bring in more investors, it was an embarrassment the objective was not fully realised. While market conditions and the complicated bond structure may be given as possible excuses, such a low demand for fully Singapore government guaranteed bonds is indicative of market sentiments. The merger of local and foreign DBS shares is also in the offing in line with the elimination of foreign tranches though the timing coinciding with the government selling its share may be vexing to the market (Straits Times, 10 February 1999).

Prior to DBS-PosBank merger, Keppel Bank and Tat Lee Bank merged to create Singapore's fifth largest local bank with more than S$33 billion in total assets and S$3 billion in shareholders' fund (Straits Times, 13 January 1998). The Keppel Group itself has streamlined its businesses too, to reduce cost as it faced expected sizeable loss in 1998, the first since 1985. It is closing 50 non-core companies from its stable of 600 companies, mergers of nine listed units, unwinding of cross shareholdings, staff reductions, wage cuts which will save S$100 million a year (Business Times, 6 November 1998). It set a 12% return on equity as target for core businesses excluding property, within three to five years. Such a rate was last achieved in 1991 which since slid to 6%. Five core areas are marine, offshore energy and engineering, banking and financial, property investment, development and management and telecommunication and transportation. Two of biggest listed entities, Keppel Integrated Engineering and Keppel Fels were also to merge to give it more financial resources to play bigger role in infrastructural opportunities in Singapore and the region.

5 Political economy issues

While it appears that two sets of political economy issues can be identified, the domestic ones are as driven and propelled by regional and global ones such that the dichotomy is rather

artificial. The critical backdrops include both the regional financial crisis breaking out in 1997 and trade liberalisation including trade in services gathering momentum toward the end of the 1990s. If WTO/GATS financial sector liberalisation is a necessary condition for banking reforms and deregulation in Singapore, a sufficient condition for a successful transformation must be the tearing away the safety blanket for domestic banking. Lulled by incremental rather than quantum reengineering in business management and innovation, the Chinese banks' seemingly lack of competitiveness outside of Singapore is worrisome. Essentially, the financial scene has changed most drastically with globalisation, information and communication technology (ICT) and the financial sector is one of those at the forefronts of the KBE.

Even DBS required a major overhaul as it geared up to be an Asian superbank and not just a successful GLC in Singapore (Far Eastern Economic Review, 29 March 2001, pp 48-51). John Olds from JP Morgan seemed to have turned DBS around as much with the recovery in the market since the Asian crisis. But he heralded the need for foreign talents in the financial sector in 1998 as much as the foreign talents policy across the board since 1999. Succeeded by Philippe Paillart from Ford Motor Credit in January 2001 as the new CEO, DBS remains 38% government-owned, down from 58% in 2000, is over capitalised like all other Singapore banks with S$01 billion in assets and has the best credit ratings in Asia.

Flushed with funds and hungry for deals, both DBS and Chinese banks have one other common denominator, not sufficiently savvy as businessmen and investors in environment outside their domestic turf. They are neither sufficiently hungry nor daring enough. Hemmed in by strict above-the-board practices and lack of deftness, bureaucrats and businessmen alike lament rather than look ingeniously into way which even American counterparts with their tough US Foreign Corrupt Practices Act are able to find some solutions. More is the pity as there is high saving and more liquidity than what the domestic banks can handle though the state's trio of financial institutions in MAS, CPF and PosBank have preempted a lot of potential. State guided liberalisation of investment for CPF saving and the DBS-PosBank merger may appear to ladle more funds into the private sector. But it would take time before the state-led and MNC-led entrepreneurial culture takes on a more genuine bona fide Schumpetarian risk taking style.

Two issues continue to nag DBS, its supporting role in Singapore Inc despite divestment as much to create the right arm's length image as it regionalises and its salient strength outside the home base. If DBS has been unsophisticated in its over cautious acquisitions as in buying small banks in Thailand, Indonesia, Hong Kong and the Philippines, overpaid and inheriting their NPLs despite its GLC forbears, other Chinese banks cannot be expected to fare better. The regionalisation approach has been at best incremental and realistically, DBS may aspire to be a major consumer bank in the region. Paillart concedes that unlike Standard Chartered where he had served a stint which is global, DBS is only in Asia, aiming to increase contribution of DBS overseas holding to profit from 10% to 50% in three to five years' time (Far Eastern Economic Review, 29 March 2001, p 51).

The other Chinese banks are following the same strategies. Alex Au formerly from Hang Seng Bank and briefly, Standard Chartered became OCBC new CEO in 1999. But he appeared less dramatic in performance compared to Olds in DBS, perhaps because OCBC remained more family-based in banking philosophy, traditions and practices. As with other Chinese banks, the new profit recipe is they cannot be all things to all people, They need to make choices and cede some sectors to other local or foreign banks who are stronger. They must understand margins from different market segments and the real costs of serving these segments and make the appropriate market studies. In attracting younger talents, both local and foreign, the use and prevalence of banking technology must commensurate with management and organisation practices. The adaptation process may have been slower in the Chinese banks but they may be

running out of time. Attractive profits are likely to be in businesses which only few banks with access to international cap markets can pursue. Tougher retail banking, more mergers, easier market entry strengthening existing multinational banks including Citibank, HSBC and Standard Chartered are patently clear with the end of entitlement from protection.

Profits not likely to be the same again as before the Asian crisis together with the ferocious liberalisation all over. The transformation means no more easy money. Banks have to build stable profits from large corporations, grow carefully in middle market banking and generate sustainable returns from in investment and trading markets. Private banking for fewer and target clients who need specific value propositions as they are more educated, demanding with wider geographical diversification and dispersion are among the challenges. They need differentiated product portfolios, more rigorous risk management, new capital market for a range of appetites, stronger management information systems which are more transparent and accountable as good governance principles.

Chinese banks cannot be content with domestic banking and a new competitive balance among regional and global banks, even with nonbank financial institutions is emerging facilitated as much by liberalisation as new technology in banking with ICT and the KBE. There are few regional banks which is indicative of the degree of localisation in each Southeast Asian economy. Bangkok Bank does tap regional overseas Chinese networks, and others which pursue regional strategies actively include two colonial banks, namely, HSBC and Standard Chartered, as well as Citibank, ABN Amro and DBS. As noted, DBS is more GLC than spanning the Chinese network. The rest of the Chinese banks in Singapore are still small players which have not quite come to grips with domestic business needs, market segmentation and more innovative banking, let alone those of the region's.

Reflecting the real estate and property base of a city-state, Singapore banks have diversified heavily into nonfinancial activity. In the wake of the financial crisis triggering the burst of the bubble economy built on real estate and equity speculation and consequent irrational resource allocation, The MAS issued a new set of rules in 1999 (Business Times and Straits Time, 22 June 1999). Banks have to separate financial and nonfinancial activities in three years' time to have them concentrate on core banking business, core competencies and reduce risk in unregulated activities such as land development. Banks can hold stakes of less than 10% in nonfinancial oompanies as equity portfolio investment as long as they do not exert control. Stakes above 10% can be retained by principal shareholders by restructuring current banking groups to place banking, insurance, securities, fund management and other financial activities under a financial arm. These larger stakes in noncore bus can be sold directly to principal shareholders or other companies not part of the group's financial arm. True separation is ensured by different sets of shareholder groups and management for different businesses. The measure also disallow financial entities to own stakes in nonfinancial entities, sharing names and logos.

The luxury of sound banks cannot be taken for granted. In a land scarce city-state, banks like most manufacturing entities have gone directly into real estate to improve asset base and profit margins. The cultural asset value of land, property and real estate may be overstated but it may well be a potent influence on investment and asset decisions even in modernised banking management. This a strong rationale behind the realignment and is particularly hard on Chinese banks which have traditional interests and faith in land and real estate. In particular, OCBC (with Fraser & Neave, Robinson & Co, Straits Trading, WBL Corporation), OUB (Overseas Union Enterprise and Hotel Negara) and UOB (Haw Par and United Overseas Land) were among the most affected by this policy. DBS (NatSteel, Intraco, CWT Distribution) has diversified whether ahead based on foresight and vision or upon instruction from Temasek Holdings its major shareholder. Like all major banks, OCBC is flushed in cash and still has to sell properties with

new regulations, underlining the need to make acquisitions in the region or simply decide to return money to its shareholders (Asian Wall Street Journal, 19 October 2000). It has the largest pool of noncore assets by far among the big four local banks. Keppel-Tatlee Bank is not affected by the asset realignment.

If Chinese banks are truly unable to meet the expectations of becoming efficient and competitive on their own without some mergers or joint ventures with a bigger international player, tapping the regional route may be the other option. But like DBS as a GLC, whether the Chinese banks are willing to dilute ownership and control is a more intractable issue. By far, only DBS has some claim as a regional bank and it may have tapped more on its Singapore label than the Chinese connection. The other Chinese banks in Malaysia and Indonesia in particular, would be likely to be riding more on guanxi and Chinese links. As part of the regionalisation policy in 1993 to encourage business and Singaporeans to go abroad, especially with the opening up of China, Chinese banks could go along to service them and regional customers. In this regard, the Suzhou industrial project as a flagship of the regionalisation policy could have been a boost. But that the Suzhou Industrial Project was not a resounding success is a retardation for Chinese banks headed for China.

Deng Xiao Peng had expressed an interest in overseas Chinese in 1977 and made a play for ethnic Chinese to contribute to China's development in 1978 with a committee on overseas Chinese by 1983 (Bolt, 2000, pp 53-76). Three legs of ethnic Chinese diaspora to be tapped include availalable capital to invest in China, ethnic Chinese business structures organised for flexibility and ethnic Chinese networks invaluable for information, connections and capital (Bolt, 2000, pp 153-8). Economic cooperation between Singapore and China can be viewed from both countries' perspectives (Bolt, 2000, pp 131-152). China's interests in Singapore are rooted in economic and political objectives as Singapore appeared the right model in delivering economic growth under an authoritarian, managed regime. Goh Keng Swee was China's economic adviser after he retired from the cabinet in 1984. Singapore was, however, cautious about investing in China in the 1980s and China was as dissatisfied too with Singapore's hesitance with Shanghai's offer of Pudong as an industrial site in 1991. Up to spring 1993, Singapore was perceived as not daring enough (Bolt, 2000, p 142) but seven months later, a change was discerned with in mega projects like Suzhou and Wuxi coming on.

Beyond market forces, political and cultural factors as both independent and mediating factors made Singapore stay at the fray due to reluctance to antagonise Malaysia and Indonesia despite pressures from China. The 1993 regionalisation policy was as inevitable reflecting rising Asian regionalism especially in China as Singapore also being impatient with slow ASEAN ways. Having used the West to internationalise, some regional identity is perhaps also deemed overdue. Singapore realised its Chineseness is unavoidable and time was opportune then to seize the window of opportunity while recognising the dangers.

China is not merely importing Spore business and exporting Chinese labour as it makes its presence through investment too in Singapore. There is scant data released but a major share of Chinese companies are in the financial sector, including Bank of Communications, Industrial Commercial Bank of China, Agricultural Bank of China and People's Construction Bank. One attraction of Singapore is Chinese firms can raise hard currency here, more than as an investment base and many Chinese companies are listed in Singapore's stock exchange since the 1995 memorandum of understanding (MOU). Chinese firms do use Singapore as a base to expand into ASEAN, gather market information and business intelligence.

Suzhou Industrial Park (SIP) was launched in February 1994 as Singapore-China government cooperation project. The 70 square kilometre town would cost US$20 billion (S$34.5 billion) to build, create 360,000 jobs, housing for 600,000 when completed in 20 years.

China-Singapore Suzhou Industrial Park Development (CSSD) is 65% owned by a Singapore-led consortium, Singapore-Suzhou Township Development (SSTD, comprising Centrepoint Prop, CityDev, DBS Land, EDB Investments, Keppel Corp, NTUC Cooperatives, Pidemco Land, SembCorp, SingLand, STIC, Temasek and Wing Tai) and 35% by the Chinese. As at January 1998, Singapore's investments comprise US$65.5 million (S$114.0 million) in equity and loans, other Singapore registered companies, US$65.5 million and non-Singaporean MNCs (SSTD partners), US$24.22 million. SIP would have been the platform to bring more ties and business for Chinese banks as other SMEs and PLEs join these GLCs and local MNCs.

A redefinition of SIP objective is to focus on completing the first eight square kilometre as a reference model for the development under Chinese management of the rest of the 70 sq km site (Business Times, 10 and 26 June 1999, Straits Times, 10 March, 14 May, 11 and 30 June 1999). Accordingly, Singapore has cut its stake from 65% to 35% with investment committed as shown in Table 5. It handed over the management of the park in January 2001. Software transfer in training Chinese officials will continue beyond that date as long as China finds it useful. The problems in the cooperation show a cultural gap in the two countries and understanding items in the documents. Singapore's unhappiness is mainly in the conflict between SIP and rival Suzhou New District (SND) industrial park set up in 1990 owned by the municipal government. In November 1997, Suzhou's vice mayor asked German investors in Bonn to invest in SND.

Table 5 Investment committed in Suzhous Township Project as at July 1999

	US$ m
Singapore cos	7.45
GLCs	52.85
Non-Spore MNCs	29.20
Statutory boards	22.65
Total in SIP	179.20
GLCs in Xinsu Ind Dev (Suzhou)	45.84
GLCs in Gasin (Suzhou)Property Dev Co	26.0
Total by statutory boards + GLCs	147.34

Source: Business Times, 4 August 1999.

Brokered at the highest level since 1992 between Lee Kuan Yew and Deng Xiaoping who admired Singapore's experience in enjoying economic prosperity with good social order and good management in 1992, the SIP was Singapore's flagship project in China as well as its regionalisation programme. Lee has remarked that SIP could have developed 50% faster and noted that if officials in a similar joint venture Wuxi-Singapore Industrial Park (WSIP) were placed in SIP, work would be a lot smoother (Straits Times, 5 July 1997). For Singapore which has thrived on competition and no preferential treatment in the local context, it was disappointed with not getting the special attention it was to get from the Beijing and Suzhou authorities.

Essentially, SND could duplicate whatever the Chinese have learnt from SIP and make a more attractive offer in lower rate of land. It is more than wounded pride (Far Eastern Economic Review, 8 July 1999) and unsuccessful cloning (The Economist 3 January 1999) as the experiment also cast Singapore's credibility to be able to intermediate, broker and form partnerships with other foreign investors interested in China under its regionalisation policy. European businessmen, for instance, have been wooed to take advantage of Singapore's regionalisation efforts to go along under a "Singapore unlimited" strategy, over and above "Singapore international". Singapore does not know China as well as Taiwan and Honk Kong.

Yet, commitment of top management spending time in China to oversee operations and understand the Chinese market is not as strong, erroneously assuming there is no deep cultural differences. In fact, smaller firms generally do better than big ones as owners invest more energy given their investment stake. The Singapore culture of being "kiasu" is not as helpful as rising to challenges in China, begging a question if Singapore businessmen are all that savvy in lesser sheltered and "sanitised" terrain where rules and regulations are not as transparent and orderly as in Singapore. It may be cold comfort that the SIP will be an illuminating and educational case study for others when Singapore's regionalisation policy is dealt this heavy blow just as the politics in Cambodia and Myanmar have affected investments there plus the downturn of the Asian financial crisis. Lee Hsien Loong conceded that Suzhou was more ambitious than thought and that SND was a "manageable" rival but the SIP has a "reasonable" chance of becoming profitable in the medium term even if Singapore partners are not injecting more capital (Straits Times, 10 July 1999).

6 Conclusion and prospects

This paper on Chinese banking in Singapore has more than exposed the difficulties of the traditional cultural model of family-owned business. It has illustrated some additional idiosyncratic issues due to the political economy model of a government-made city-state where both economic and political control are entrenched like two sides of the same coin. Two cases of the DBS-PosBank merger and the failure and scale back of the SIP in China have potent repercussions and implications for the Chinese banks. On one hand, the DBS-PosBank merger signaled with room for only one more local bank, the rest of the Big Four must see ways and means of how to merge and consolidate to be the other bank to stand up to DBS. On the other, that the SIP did not materialise in the scale and scope as intended, Chinese banks are deprived of a ready made platform to regionalise and launch into a natural cultural habitat drawing on its traditional skills in guanxi for social and business relations.

The timing of it all with the WTO/GATS liberalisation, Asian financial crisis and probably, senior minister's own impatience to see the Chinese banks which he had protected in his watch as Singapore industrialised break out more competitively, cannot be more challenging. Singapore Chinese banks may be more "sanitised". Yet, they did suffer from the breadth and depth of bank failures in ASEAN due to relations-based lending and corruptive practices The 1997 Asian crisis has been deemed an Asian economic catharsis, implying Asian firms including banks, need to develop new organisational dynamism and management to survive (Richter, ed, 2000). Asian capitalism continues but the post-crisis management paradigm has to be a hybrid of Asian and Western capitalism and management styles, the best of both rather than one system alone. The Chinese network may not be a strategic planning model yet with the global emphasis on strategic competitiveness, human resource practices and even on concept of intellectual property right (IPR).

But it has value to add to the Western scientific management theory and practice so long as business is conducted in the regional where some guanxi and Chines network persist. A modern version of coexistence and collaboration between Chinese and foreign banks as existed in the prewar era may be resuscitated with ample modification. Chinese banking in Singapore stands the best chance now to revitalise its business model. The financial liberalisation and other new regulations imposed by MAS to evince more core competency competition ahead of WTO/GATS by 2002 is giving Chinese banks the right signal and ultimatum after three decades of sheltered and managed domestic banking. The state has reserved one place for them after the DBS-PosBank. How the rest of the domestic banks will club and realign together is left to

market forces and will of the local banking community. It cannot expect more assistance or understanding from the state which the local business community as a whole has never been able to influence.

As Singapore becomes more cosmopolitan, regionalisation takes a stronger expression within globalisation and concept of domestic banking less relevant, the role and potential of Chinese banking may also lose its functionality and identity. Technology and globalisation has made markets, including financial and banking more perfect with symmetry of information and it available freely and cheaply. Chinese guanxi and networks as business information and intelligence may still have some cultural value and appeal among the remaining traditional sectors. Once economic efficiency and costs become the operating parameters, Chinese banking for the Chinese business community may be just another product group or market segment. The market segment may not be small but over specialising in a Chinese clientele may not be wise either.

This is not to downplay culture and tradition in business altogether in East and Southeast Asia. But the political economy of Chinese banking to maintain its magnitude and potency has attenuated immutably. Beside demand and markets, even staff recruitment especially attracting younger and more creative talents into Chinese banks is a major problem and reliance on family members rather than professionally recruited staff has its obvious limitations. The state is not all out to get rid of Chinese banks in Singapore, just that they must be competitive and efficient like every other banks. If traditional family-based banking practices constitute the barriers to change and transformation, tackling them should not be tantamount to attacking the Chinese culture and values. Chinese banks have to rise to the occasion with their wherewithal in financial resources. It is curious and paradoxical why banking responding to ICT and KBE cannot be as nimble and competitive in turning around like other indigenous technology firms such as Creative Technologies and CDL Hotels which have so far demonstrated some capability beyond the city-state.

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