Chinese Banking Business in Singapore
Background and Development in the First Half of the Twentieth Century

Ryoichi Hisasue

Introduction

In the late nineteenth century, the Asian economy became subsumed within the new framework of global free trade. This phenomenon brought modern business infrastructure, such as banking, shipping, and communication, from the West. For example, British overseas banks, which were closely linked with the London-centered international financial system, provided a safety net that helped guarantee global settlement and funds supply.[1] These banks also developed relations with commercial networks in Asia, including Chinese, Indian, Parsi, Jewish, Armenian, and Muslim networks, thus accelerating regional economic activity.

In the early twentieth century, however, native capital began to enter the modern banking business. A typical example was the formation of banks by overseas Chinese. These banks did not challenge the dominance of Western banks, but became significant players in local economic activity. This phenomenon spread throughout the Asia-Pacific, and Chinese banks were soon established in such Chinese business entrepots as Singapore, San Francisco, and Hong Kong. This paper examines the Chinese banking business in Singapore as an example and elucidates its background and development during the first half of the twentieth century.

Chinese Demand for Financial Services in Singapore in the Nineteenth Century

Singapore was established by the British in 1819 as a trading port linking the East and the West. However, from the middle of the nineteenth century, Chinese immigrants from South China flowed into Southeast Asia and became a driver of intra-Asia economic activity. Singapore thus became not only a trading hub between East and West, but a distribution port for Chinese economic activities both within and between Southeast Asia and China.

As an entrepot for Chinese commercial networks, financial profits from the activities of the Singapore Chinese community were remitted to China. For example, Chinese migrant workers in Southeast Asia had to send money to their families in South China — including the Pearl River Delta (珠江三角州), Teochew (潮州), and Hokkien (福建)[2]. Singapore thus became a central accumulation point for remittance funds throughout Southeast Asia.

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[1] In the nineteenth century, many British banks opened branches in Singapore, including Union Bank of Calcutta (1840), Oriental Bank (1846), Asiatic Bank (1851), Mercantile Bank (1858), Chartered Bank (1859), and the Hong Kong and Shanghai Banking Corporation (1866). Additionally, Dutch banks, such as N.H.M. and N. I. Handels, opened branches in the 1880s.

[2] This paper transcribes the pronunciation of Chinese words in the original dialect as often as possible. Therefore, the same Chinese characters may be transcribed in different ways.

Because of the large demand for remittances, small Chinese trading shops also provided private postal and remittance services. These private postal and remittance agents (信局) accepted letters or remittance funds from the Chinese community and arranged for their transfer to South China.[3] In the process, they developed relationships with British and other banks to use their remittance networks.

Foreign banks recognized that the large volume of accumulated remittance funds from the Chinese community offered an important business opportunity. Therefore, foreign banks began to provide short-term credit or other financial benefits to major remittance agents.[4] Relationships thus were formed among the various foreign banks and Chinese remittance agents. Restated, a co-relationship was established between the macro networks (banks), which were based in the systematic business organization, and the micro networks (remittance agents), which were based in the local business networks.[5]

However, Chinese demand for trade finance was limited. Because Chinese business activities in Singapore were based on trust within kinship and dialect groups, settlement between trade partners used book-keeping barter.[6] This method is a traditional Chinese tool for trade settlement,[7] in which each book is balanced almost evenly and actual settlement is only required twice a year. Such demand as existed for trade finance was met mainly by the compradors or brokers that collected local products, such as tin or spices, for foreign trading firms. These compradors and brokers enjoyed easier access to foreign banks, and thus could arrange short-term loans with credit guaranteed by foreign trading firms.

Demand for industrial finance was also limited. For example, in the late nineteenth century, Chinese dominated the tin mining industry in Malaya. However, the low initial investment was one of the reasons Chinese could easily enter this business. Open cut mining did not require heavy mining equipment, and tin miners raised the necessary funds from families or friends within the same dialect group.

However, while Chinese demand for finance was limited, Chinese who did wish to use foreign banks faced numerous constraints. From the foreign banks' perspective, different views of credit made long-term loans to the Chinese a high risk. The foreign banks viewed credit solely in terms of financial assets, whereas the Chinese viewed credit as based on personal reputation, and thus incorporating not only financial assets but also personal ability and social influence. For their

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[3] See Ryoichi Hisasue, "Connection Mechanisms for Chinese Remittances: From Singapore to the Pearl River Delta via Hong Kong," *Southeast Asian Studies* 44, no. 2 (久末亮一「華僑送金の広域間接続関係：シンガポール・香港・珠江デルタを例に」『東南アジア研究』44巻 2 号) 2006: 204-222.

[4] Bank of Taiwan, "Nanyou ni Okeru Kakyou (Sina Ijyumin) Tsuki Kawase Kankei," (台湾銀行『南洋ニ於ケル華僑（支那移住民）附為替関係』"Overseas Chinese (Chinese Immigrants) in Southeast Asia and their Remittance Relationship") 1914. 113.

[5] Hisasue, "Connection Mechanisms," 211.

[6] Rajeswary Brown, "Chettiar Capital and Southeast Asian Credit Networks in the inter-war period," in Gareth Austin and Kaoru Sugihara, eds., *Local Suppliers of Credit in the Third World, 1750-1960* (London: The Macmillan Press Limited, 1993), 272.

[7] See W. G. Huff, "Bookkeeping Barter, Money, Credit, and Singapore's International Rice Trade, 1870-1939," *Explorations in Economic History* 26 (1989): 161-189.

part, the Chinese considered the Western banking system inflexible. Furthermore, communication problems existed between the two sides. To bridge these gaps banks employed compradors as intermediaries; however, these compradors mainly came from the Cantonese dialect group and preferred to deal with other Cantonese. For example, since Cantonese dominated the comprador positions of the Singapore branch of the Hong Kong and Shanghai Banking Corporation,[8] Chinese merchants from other regional groups, such as the Teochew or Hokkien, found it difficult to access the services the bank offered.

Direct use of foreign banks by local Chinese was not particularly widespread during the nineteenth century, other than remittance activity through agents or Chinese brokers raising short-term credit. Many Chinese raised necessary funds from within their own networks that were based on ties of kinship or dialect group. When these avenues failed to supply necessary funds, Chinese often borrowed at high interest rates from Indian usurers, the so-called Chettiar.

The Formation of Chinese Banks in Singapore

In the early twentieth century, the Singapore Chinese community began to establish their own banks. The pioneer was Kwong Yik Bank (廣益銀行), established in 1903 by Wong Ah-Fook (黄亜福), a sub-contractor and planter, and some of his Cantonese colleagues in Singapore and Malaya, such as Loke Yeu (陸佑), a famous mining magnate. The Bank had its origins as a mock-banking business on Wong's plantation, where it issued bank notes to pay wages to plantation workers and accepted their savings deposits.[9] Kwong Yik Bank provided deposit and check services, for which huge potential demand existed among Cantonese traders and shopkeepers.

Kwong Yik Bank was soon imitated by other Chinese banks throughout the Asia-Pacific. For example, the Bank of Canton (廣東銀行) was founded in San Francisco in 1907 by a Cantonese merchant group. The memorandums and articles of association of the Bank of Canton specifically referenced Kwong Yik Bank, as follows:

> In recent years, Chinese private and official entities have been promoting business activities in China and other commercial ports. "Kwong Yik Bank" was established in Singapore, and "Sino-Mexico Bank" was established in Mexico. These new banks are struggling to recover national pride and interest, and promote the interests of fellow Chinese merchants.[10]

[8] Brown, "Chettiar Capital," 291.

[9] Lee Sheng-Yi, *The Monetary and Banking Development of Malaysia and Singapore* (Singapore: Singapore University Press, 1974), 70.

[10] Him Mark Lai, *Cong Huaqiao Dao Huaren: Ershi Shiji Meiguo Huaren Shehui Fazhan Shi* (麥禮謙『従華僑到華人－二十世紀米國華人社會發展史』"From Overseas Chinese to Chinese America: A History of the Development of Chinese American Society during the Twentieth Century") (Hong Kong: Joint Publishing Company (三聯書店(香港)有限公司), 1992): 94-95.

In November 1906, the Sze Hai Tong Banking and Insurance Company, Limited (四海通銀行保険積聚有限公司) was established by Teochew merchants, including Wee Song-Tin (黄松亭), Tan Ah-Goh (陳亜鵝), Tan Swi-Khi (陳瑞麒), and Cheong Khwi-Thiam (鍾癸添). The enterprise was backed by the issue of ten thousand shares at 100 straits dollars per share.[11] As the name of the bank suggests, an insurance business was simultaneously established, and branches were opened in Bangkok, Hong Kong, and Swatou in line with Teochew commercial networks.

Interestingly, shares of the Sze Hai Tong Banking and Insurance Company, Limited were categorized into two types, ordinary shares and founders shares (Table 1), where the latter were de-facto preferred shares with the right to a special dividend, the so-called "red share" (紅股份). This business practice originates in South China. In China, joint-stock businesses (合股) paid special dividends to such qualified persons as founding shareholders or executive managers.[12] While the Sze Hai Tong Banking and Insurance Company, Limited was established as a modern financial institution, it reflected the mindset of its founders by preserving traditional Chinese business practices.[13]

Names Addresses and Descriptions of Shareholders	Number of Ordinary Shares taken by each Shareholder	Number of Founders Shares taken by each Shareholder
Wee Song Ting, of Singapore, Merchant	1980	20
Tan Ah Goh, of Singapore, Merchant	1287	13
Tan Swi Khi, of Singapore, Merchant	1089	11
Cheong Kwi Thiam, of Singapore, Merchant	1089	11
Tan Swi Phiau, of Singapore, Merchant	495	5
Yeo Chang Boon, of Singapore, Merchant	495	5
Leow Chia Heng, of Singapore, Merchant	495	5
Yeo Piah Kwi, of Singapore, Merchant	495	5
Tan Choon, of Singapore, Merchant	495	5
Sim Khiok Choon, of Singapore, Merchant	495	5
Yeow Lee Chinag, of Singapore, Merchant	495	5
Teo Hoo Lai, of Singapore, Merchant	495	5
Lee Leng Hoon, of Singapore, Merchant	495	5

Table 1. Original Shareholders of the Sze Hai Tong Banking and Insurance Company, Limited
Source: "Memorandum and Articles of Association of the Sze Hai Tong Banking and Insurance Company, Limited." November 1906. 9.

[11] "Memorandum and Articles of the Association of the Sze Hai Tong Banking and Insurance Company, Limited," November 1906.
[12] Kitsu Negishi, *Shouji ni kansuru Kankou Chousa Houkokusho; Gouko no Kenkyu* (根岸佶『商事に関する慣行調査報告書 合股の研究』 "Report of Business Practice: Research about Traditional Chinese Joint Stock Business") (Toa Kenkyujyo (東亜研究所), 1943), 558.
[13] This practice also introduced the "Bank of Canton" to both San Francisco and Hong Kong. See Ryoichi Hisasue, "The Rise and Fall of the Bank of Canton," *Asian Economies* 49, no. 3 (久末亮一「廣東銀行の興亡 近代華人資本の銀行業展開とその限界」『アジア経済』第49巻第 3 号) 2008: 2-29.

However, lack of a branch network and practical knowledge meant the Kwong Yik Bank and the Sze Hai Tong Banking and Insurance Company, Limited were unable to independently operate clearing and foreign exchange business. In fact, they merely acted as intermediaries between Chinese customers and foreign banks. Their loan business had the same structure. Chinese banks raised funds from foreign banks at low interest rates and sub-financed them to Chinese customers. In this sense, early Chinese banks played a similar role to the bank comprador but served a wider range of Chinese customers. This business model was excessively limiting for a modern bank, causing the collapse of Kwong Yik Bank in 1913[14] and constraining the expansion of the Sze Hai Tong Banking and Insurance Company, Limited.

In the early 1910s, the altered economic environment in Malaya encouraged the establishment of more Chinese banks. Beginning in 1908, the first boom in the rubber industry gave Chinese entrepreneurs an opportunity for capital accumulation. Besides reinvesting in plantations, successful planters jointly invested in the banking business. Unlike the tin industry, the rubber industry had enormous demand for long-term capital investment, particularly investment in large-scale plantations. However, many foreign banks refused Chinese planters long-term credit because they felt that the associated exposure to the volatile global rubber market was too risky.[15] Therefore, the Chinese business community in Singapore and Malaya promoted the formation of new banks to meet this untapped demand.

In 1912, Chinese Commercial Bank (華商銀行) was established with capital of 1 million straits dollars. The primary founder was Lim Peng-Siang (林秉祥), a Hokkien merchant who owned the trading and shipping firm Ho Hong (和豊). Many leading figures from the Hokkien community also participated in the establishment of this bank. For example, Lee Choon-Guan (李俊源), a Malacca-born plantation tycoon and a member of the legislative council in Singapore, was appointed chairman. Moreover, Lim Boon-Keng (林文慶), a skilled doctor, educator, and social worker in Singapore, was appointed vice chairman.[16] The main business of Chinese Commercial Bank was providing checking and savings account services to Hokkien traders and shopkeepers, and financing the Hokkien business community, particularly the plantation sector. In 1914, a run on the bank forced restructuring through government intervention.[17] As a result of this incident, Lim Peng-Siang resigned as managing director, and the bank resumed operations under a stricter and more conservative management policy.

In 1917, Lim Peng-Siang reentered the banking business with a new banking venture, Ho Hong Bank (和豊銀行), which was founded with capital of 2 million straits dollars. Lim funded this venture with capital accumulated during the commodity export boom following the First

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[14] A portion of the shareholders of Kwong Yik Bank re-opened their banking business in Malaya and registered Kwong Yik Selangor Banking Co. in Kuala Lumpur in 1914.

[15] W. G. Huff, "Capital Markets, Sharecropping and Contestability: Singapore Chinese in the Interwar British Malayan Estate Rubber and Pineapple Industries," in Austin and Sugihara, *Local Suppliers of Credit*, 293.

[16] Dick Wilson, *Solid as a Rock: The First Forty Years of the Oversea-Chinese Banking Corporation* (Singapore: Oversea-Chinese Banking Corporation Ltd., 1972), 9.

[17] Ibid., 10. Colonial authorities were obviously afraid that a worsening run on the banks would produce social and economic unrest in the territory.

World War. Directors and shareholders were drawn from the Hokkien community in Singapore and Malaya, and even Lee Choon-Guan and Lim Boon-Keng of Chinese Commercial Bank joined the board.[18] Ho Hong Bank used the business networks that Ho Hong Shipping had established throughout Malacca, Moore (Johor), Batopaha, Penang, Palembang, Seremban, Kuala Lumpur, Ipoh, and Batavia. The bank also opened branches in Hong Kong and Shanghai and began remittance and foreign exchange operations. Deposit business was important to the bank's activities, and deposits totaled 14 million straits dollars in 1920, 20 million in 1925, 23 million in 1930, and 26 million in 1931.[19]

In 1919, Oversea-Chinese Bank (華僑銀行) was established with capital of 5.25 million straits dollars. The founders and shareholders again were leading Hokkien merchants, and included Khoo Kok-Wah (丘國瓦), Tan Ean-Kiam (陳延謙), Oei Tiong-Ham (黄仲涵) and Oei Ik-Tjoe (黄弈注).[20] Interestingly, Lim Boon-Keng, who was already vice chairman of Chinese Commercial Bank and director of Ho Hong Bank, was appointed chairman of the board. Oversea-Chinese Bank opened branches in Penang, Kuala Lumpur, Malacca, Rangoon, Sumatra, Hong Kong, Shanghai, and Xiamen, and began its own foreign exchange operations in 1925. The bank experienced steady growth, and net total assets reached 8 million straits dollars in 1922 and 17 million straits dollars in 1931.[21] Oversea-Chinese Bank also became one of the six founding members of the Chinese Bankers Association in Hong Kong in 1919.[22]

In addition to this series of Hokkien banks, in 1920 a Cantonese entrant emerged in the form of Lee Wah Bank (利華銀行). The main founder was the famous Cantonese tycoon Eu Tong-Sen (余東璇), who controlled a trading, mining, and plantation empire. Lee Wah Bank provided checking and savings account services for Cantonese traders and shopkeepers and also offered foreign exchange and remittance services through an alliance with the Bank of East Asia (東亜銀行) in Hong Kong.[23] Finally, in 1935, another Hokkien merchants group, led by Wee Kheng-Chiang (黄慶昌) and based in Sarawak and Singapore, established the United Chinese Bank (大華銀行).

Limitations of the Chinese Banking Business in Singapore in the 1930s

A notable feature of Chinese banks in Singapore is that they were built on a framework of shared backgrounds, such as dialect or trade groups. For example, the three major Hokkien banks were founded by members of the Hokkien merchant community, many of whom were involved in

[18] Ibid., 17.
[19] Ibid., 18.
[20] Ibid., 21.
[21] Ibid., 22.
[22] Founding members included the Bank of China, Bank of Canton, Bank of East Asia, National Commercial and Savings Bank, Yien Yi Bank, and Oversea Chinese Bank. ("Introduction of the Association" (『本會簡紹』), Chinese Banker's Association (香港華商銀行公會), 2002.
[23] Elizabeth Sinn, *Growing with Hong Kong: The Bank of East Asia, 1919-1994* (Hong Kong: Bank of East Asia, Ltd., 1994). As a result of the marriage of Eu Tong-Sen's son, Eus would be related to Kan Tong-Po (簡東浦), the Chairman of the Bank of East Asia.

plantation business.[24] These common backgrounds helped the banks access potential customers and their credit information by using personal networks within the small Chinese dialect communities. However, the monopolization of banks by closed personal networks created potential for favoritism.

For example, the three major Hokkien banks loaned heavily to rubber plantations because of the background of their controlling interest groups. This imbalanced lending exposed the banks to commodity prices, and they suffered temporary damage in the early 1920s when rubber prices dropped during the post-World War I recession. However, the rapid expansion of the automobile industry continued to fuel the growth of the rubber industry. The Hokkien business community, backed by financing from the three major Hokkien banks, was able to dominate the Malayan rubber industry.

In the 1930s, the Great Depression seriously impacted economic activity in Malaya, and particularly affected the rubber industry. The price of rubber plunged to just 4 straits cents per pound in 1932, compared with 1.14 straits dollars in 1925 and 34 straits cents in 1929. With their break-even price at approximately 25 straits cents per pound, many planters opted to halt production. Planters obviously suffered enormously. Tan Kah-Kee (陳嘉庚), one of the most prominent Hokkien business tycoons in Singapore and Malaya was a typical example. Tan expanded his rubber and pineapple plantations in the 1920s, but the collapse in rubber prices caused tremendous losses for his business empire, and he went bankrupt in 1934.[25]

The rubber price crash during the Great Depression seriously impacted the Chinese banking industry because of its imbalanced loan exposure to the plantation business. For example, Chinese Commercial Bank experienced serious financial difficulties in 1931 following an increase in nonperforming loans. The bank appointed Yap Twee (葉玉堆) as the new general manager and he restructured the business. Yap disposed of non-performing loans as quickly as possible. He also increased capital through a share issue that saw a 30% interest in the company sold to the Bank of China.[26]

Besides suffering enormous losses from plantation loans, Oversea-Chinese Bank also experienced foreign exchange losses due to Britain's 1931 abandonment of the gold standard. Moreover, there was a run on the Rangoon branch in 1932.[27] The situation at Ho Hong Bank was far more serious. The bank was very active in foreign exchange operations within its branch network, and was badly damaged when Britain abandoned the gold standard. The bank did not hedge silver-based deposits in its Hong Kong and Shanghai branches, and suffered tremendous foreign exchange losses when the straits dollar plunged in tandem with the British pound. The bank's reserve fell by one-third and the bank confronted a serious financial crisis. The board of

[24] Chinese banks in other areas had the same features. For example, the Bank of Canton in San Francisco and Hong Kong was established by Cantonese traders, the so-called "Gold Mountain House" (金山荘). The same group of Cantonese traders was also involved in and supported the revolutionary activity of Sun Yat-Sen.
[25] Tan Kah-Kee, *Nan Qiao Hui Yi Lu.* (陳嘉庚『南僑回憶錄』"Reminiscence of Overseas Chinese in South") (Fuzhou Ji Mei Xiao You Hui (福州集美校友會), 1950).
[26] Wilson, *Solid as a Rock*, 10.
[27] Ibid., 22.

directors asked the Au brothers, most famous as the Tiger Balm tycoons, to bail the bank out, but their support was inadequate.[28]

Chinese Commercial Bank (1912)	Ho Hong Bank (1917)	Oversea Chinese Bank (1919)
Lee Choon-Guan	**Lee Choon-Guan**	
Lim Boon-Keng	**Lim Boon-Keng**	**Lim Boon-Keng**
Lim Peng-Siang	**Lim Peng-Siang**	
Yin Suat-Chwan		**Yin Suat-Chwan**
Tan Sian-Keong		**Tan Sian-Keong**
Yeo Cheng-Hai	Tan Cheng-Lock	Tan Ean-Kiam
Tan Jiak-Kim	Chang Kang-Swi	Khoo Kok-Wah
Tan Chay-Yan		Lim Nee-Soon
Lim Kwee-Eng		

Table 2. Interlocking Directorships among the Three Hokkien Banks
Source: Dick Wilson, *Solid as a Rock: The First Forty Years of the Oversea-Chinese Banking Corporation* (Singapore: Oversea-Chinese Banking Corporation Ltd., 1972), 9, 10, 17.

The challenging environment led the Hokkien banks to begin merger negotiations. In fact, the three banks already shared certain common founders, directors, and shareholders from within the Hokkien community in Singapore and Malaya (Table 2). The banks also had a gentlemen's agreement to offer mutual aid if one of them faced a crisis.[29] Therefore, Chee Suee-Cheng (徐垂青), the chairman of Ho Hong Bank, approached Lee Kong-Chian (李光前), the vice chairman of Chinese Commercial Bank, to propose merger talks, where Oversea-Chinese Bank also participated. The three banks reached an agreement in October 1932, and jointly established a new bank, named Oversea-Chinese Banking Corporation, in December 1932.

Conclusion

Since the middle of the nineteenth century, Singapore functioned not only as a trading hub between East and West, but also as a distribution port supporting Chinese economic activities in and between Southeast Asia and China. Because of its unique economic position and conditions, Singapore attracted both foreign banks, linked with the London-centered international financial system, and native commercial networks, based on local economic activities. Both of these developments accelerated regional economic activity.

In the early twentieth century, native capital began to establish its own banks, and Chinese banks were founded in such entrepots of Chinese business activities as Singapore, San Francisco, and Hong Kong. Although they did not usurp the dominance of Western banks, these Chinese

[28] Ibid., 18.
[29] Ibid., 6.

banks established a significant position in local economic activities, such as in the development of the rubber plantation industry in Malaya throughout the 1920s.

A notable feature of Chinese banks in Singapore is that they were built on frameworks of shared backgrounds, such as dialect or trade groups. In other words, while they took the form of modern banking institutions, they were also defined by traditional Chinese business practices. Reliance on networks that stretched across a framework of common backgrounds made it easy for these banks to access potential customers and their credit information via personal networks. However, this heavy reliance on close personal networks also created vulnerability to favoritism within the inner circle. This weakness became apparent in the 1930s, when the Great Depression seriously impacted economic activity in Malaya and the collapse of rubber prices disproportionately affected the Chinese banks. The associated crisis led to the merger of Singapore's three Hokkien banks in 1932.

Singaporean Chinese society established a series of new banks, but these Chinese banks lacked sufficient business scale and faced barriers to growth.[30] Chinese banks could not directly access the London-centered international financial system, and therefore were unable to compete on an equal footing with foreign banks. However, Chinese banks were able to enter regional niche markets, such as financing the local plantation business, and in so doing exploited their connections in the local Chinese business community. The Chinese banks were a driver of the rapid expansion of the Malayan rubber plantation industry.

The business model of overseas Chinese can be seen as gradually transforming from reliance on long-distance networks to establishing a more local basis. Reflecting this trend in the early 20th century, the influence of Singapore-Hokkien community intensely investing in the plantation business surpassed that of the Cantonese community concentrating on long-distance trade. Subsequently, the late 1930s through the 1950s saw the collapse of the regional free trade framework that had existed since the nineteenth century. This development disrupted long-distance trade networks and led to commercial activity by overseas Chinese following a more regional or domestic pattern.

[30] In the late 1930s, the deposit share in Chinese banks in Singapore and Malaya was less than 25% of the total amount. Brown, "Chettiar Capital," 275.